ANNUAL FINANCIAL REPORT AND FINANCIAL STATEMENTS FOR 2017

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INTERNATIONAL CRIMINAL POLICE ORGANIZATION – INTERPOL

INTERPOL

I. ANNUAL FINANCIAL REPORT 2017

I.1 FINANCIAL STATEMENTS DISCUSSION AND ANALYSIS

I.1.1 Overview of INTERPOL’s operations and environment

I.1.2 Introduction

1. INTERPOL is the world’s largest international police organization, with 192 member countries. Its role is to enable police around the world to work together to make the world a safer place. Its high-tech infrastructure of technical and operational support helps meet the growing challenges of fighting crime in the 21st century.

I.1.3 Vision – Connecting police for a safer world

2. The Organization’s vision is that of a world where each and every law enforcement professional will be able – through INTERPOL – to securely communicate, share and access vital police information whenever and wherever needed, ensuring the safety of the world's citizens. INTERPOL constantly provides and promotes innovative and cutting-edge solutions to global challenges in policing and security.

I.1.4 Mission – Preventing and fighting crime through enhanced cooperation and innovation on police and security matters

3. INTERPOL facilitates the widest possible mutual assistance between all criminal law enforcement authorities. It ensures that police services can communicate securely with each other around the world. e It provides operational support on specific priority crime areas. It fosters continuous improvement in the capacity of police to prevent and fight crime, and the development of knowledge and skills necessary for effective international policing. INTERPOL strives for innovation at all times, in the areas of police and security matters.

I.1.5 Organizational structure

4. INTERPOL’s General Secretariat (IPSG) is based in Lyon, France, supported by the Global Complex for Innovation in Singapore (IGCI), seven Regional Bureaus (RBs), and Special Representative offices at the African Union, the European Union and the United Nations. Each of its member countries maintains a National Central Bureau (NCB) staffed by its own highly trained law enforcement officials.

I.1.6 Governance structure

5. INTERPOL's activities are driven by member countries, within a clear framework of governing bodies and statutory meetings.

6. The General Assembly and Executive Committee form the Organization's governance. The supreme governing body, the General Assembly, is composed of delegates appointed by each member country. It meets annually to take all important decisions related to policy, resources, working methods, finances, activities and programmes.

7. The Executive Committee is elected by the General Assembly and is headed by the President of the Organization. It provides guidance and direction to the Organization and oversees the implementation of decisions made at the annual General Assembly. The Organization's strategic decisions are implemented on a day-to-day basis by the General Secretariat and National Central Bureaus.

8. The Commission for the Control of INTERPOL's Files (CCF) is an independent, impartial body, officially responsible for ensuring that the processing of personal data by the INTERPOL General Secretariat conforms to applicable INTERPOL rules.

I.1.7 Legal Aspects

9. INTERPOL functions under international law and is recognized as an international organization by the United Nations, and through its Headquarters agreements with France and other countries on whose territory it has premises.

10. The INTERPOL Constitution is an international agreement that confirms as Members the governments of all those countries that participated in its adoption in 1956 and provides the application procedure for countries that were not members in 1956 to join INTERPOL.

11. As INTERPOL's main legal document, the Constitution outlines the Organization's aims and objectives. It establishes the mandate of the Organization to ensure the widest possible cooperation between all criminal police authorities and to suppress ordinary law crimes. It defines the structure of the Organization, defines the role of each body of INTERPOL, and provides for the budget and relations with other organizations.

12. In addition, a number of fundamental texts make up INTERPOL's legal framework. These include:

- The General Regulations
- Rules of the Procedure of the General Assembly
- Rules of the Procedure of the Executive Committee
- Financial Regulations
- Rules on the Processing of Data
- Rules on the Control of Information and Access to INTERPOL's Files.

13. Several levels of monitoring and supervision have been put in place in order to ensure compliance with these rules. These include monitoring by National Central Bureaus, by the General Secretariat and by the independent supervisory body known as the Commission for the Control of INTERPOL's Files. Furthermore, the exchange of data between INTERPOL's member countries is carried out according to strict guidelines in order to ensure the legality and quality of information, and protection of personal data.

14. Additional details are available at: https://www.interpol.int/About-INTERPOL/Legal-materials

I.1.8 Sources of funding

15. INTERPOL’s principal source of funding is the annual statutory contribution paid by each of its 192 member countries, according to an assessed scale agreed upon in advance by the member countries for a stated period. Member countries also make additional contributions on a voluntary basis, which may be monetary or in-kind.

16. INTERPOL enters into partnerships with other organizations in the public and private sectors to tackle challenges in common areas. As transnational crime cannot be countered by the law enforcement community in isolation, by engaging in partnerships across sectors, INTERPOL is able to share expertise, technology and resources, and thus strengthen the joint response. INTERPOL cooperates closely with a number of partners in the public sector, such as the European Union, UNODC, EUROPOL, ASEANAPOL, World Customs Organization, CEMAC (Economic Community of Central African States) and numerous government agencies. It also works with selected partners from the private sector, encompassing both for-profit entities and non-profit bodies, such as non-governmental organizations and foundations, including the INTERPOL Foundation for a Safer World.

17. External organizations bring a new and valuable dimension to INTERPOL’s activities, and their contributions benefit INTERPOL’s entire network of member countries. The contributions from different donors for pre-determined activities are managed separately in Trust Funds and Special Accounts.

I.1.9 Crime-fighting areas

18. Many crimes in the 21st century have a transnational dimension and require a global response. INTERPOL works to prevent and investigate a wide range of crimes as detailed below, delivering tangible initiatives and making a real difference to international cooperation.

- CBRNE - Chemical, Biological, Radiological, Nuclear and Explosives crime
- Corruption
- Crimes against children
- Crimes in sport
- Cybercrime
- Drugs
- Environmental crime
- Financial crime
- Firearms trafficking
- Maritime piracy
- Organized crime
- Pharmaceutical crime
- Terrorism
- Trafficking in human beings
- Trafficking in illicit goods and counterfeiting
- Vehicle crime

- War crimes
- Works of art

19. Additional details are available at: https://www.interpol.int/Crime-areas

I.1.10 Strategic Framework

20. The Strategic Framework 2017-2020 serves as a roadmap for INTERPOL's global activities. This contains the Organization's vision, mission, values, goals and objectives, and is the structure through which all our activities are defined, executed and evaluated.

21. Set for a period of four years, the Strategic Framework is approved by the General Assembly, and contains five strategic goals as follows, together with 23 strategic objectives.

1: Serve as the worldwide information hub for law enforcement cooperation

2: Deliver state-of-the-art policing capabilities that support member countries to fight and prevent transnational crimes

3: Lead globally innovative approaches to policing

4: Maximize INTERPOL's role within the Global Security Architecture

5: Consolidate resources and governance structures for enhanced operational performance.

22. The Programme of Activities document is prepared annually to support the implementation of the Strategic Framework and contains key, strategic activities (i.e. business activities) for the Organization to monitor. These are activities that are critical to achieving the strategic objectives, and will be the focus of INTERPOL's senior management in steering the Organization. In 2017, 34 business activities were monitored as part of the Programme of Activities for that year and measured by means of key performance indicators (KPIs) to track performance.

23. Additional details are available at: https://www.interpol.int/About-INTERPOL/Priorities

I.2 OVERVIEW OF INTERPOL'S FINANCIAL OBJECTIVES AND STRATEGIES

24. INTERPOL's financial activities are governed by its Financial Regulations. These constitute an Appendix to the General Regulations and are adopted by the General Assembly in accordance with the Organization's Constitution. Any subsequent modifications to the Financial Regulations are approved by the General Assembly. The Financial Regulations, together with any other financial provisions adopted in application of the basic texts of the Organization, provide the basis for governance of all the Organization's financial management activities.

25. As laid down in the Financial Regulations, the draft budget document for the Organization is prepared on the basis of its Strategic Framework and the Programme of Activities for each financial period that runs from 1st January to 31st December every year. The draft budget document also includes an indicative forecast covering two further financial periods immediately following the budget year. The draft budget is formulated with the objective of providing financial support to implement the Programme of Activities of a given year and, together with the Programme of Activities, is submitted by the Secretary General to member countries at each annual General Assembly session for approval.

26. The draft budget combines the regular budget (consisting of member countries' statutory, voluntary and in-kind contributions) with the Trust Funds and Special Accounts budget (consisting of contributions from different donors for pre-determined activities) to provide comprehensive resources to support the annual Programme of Activities. The budget document for the 2017 included indications for 2018 and 2019, and was approved, together with the 2017 Programme of Activities, by the General Assembly at its 85th session (Bali, Indonesia, November 2016).

27. The General Assembly's approval of the annual draft budget and the annual Programme of Activities makes it possible to implement the approved budget to perform the activities contained in the authorized Programme. The Financial Regulations contain provisions to call on member countries for statutory contributions to the approved budget as per the agreed scale of contributions. They also set the due date for the payment of statutory contributions as 1 April of each year, and specify rules to be followed for the rescheduling and cancellation of arrears due from member countries. The General Regulations stipulate sanctions for member countries with outstanding dues extending to two or more financial periods, restricting their participation in annual General Assembly sessions, for example.

28. In addition to their monetary, statutory contributions, member countries make voluntary monetary or non-monetary (in-kind) contributions to the Organization's budget. In-kind contributions consist primarily of seconding police and administrative officials to work at the General Secretariat in Lyon, IGCI, Regional Bureaus, and Special Representative Offices, for an initial fixed duration, usually of three years. Such secondments add inestimable value to the training and development, career progression and effective global functioning of such officials, and these assignments are greatly valued by the member countries.

29. Member countries also allow the Organization the rent-free use of office premises, equipment and other facilities on the basis of agreed contracts that set out the terms and conditions for the use of such facilities. All these non-monetary, in-kind contributions from member countries are assessed on a fair-value basis wherever appropriate and possible, and are included in the Organization's budget, as accounted for in these financial statements. The Organization endeavours to estimate the entirety of member countries' contributions to its operations and activities. Assessments of these multi-factor contributions are presented elsewhere in these financial statements.

30. The Financial Regulations require that the Organization's draft budget balance, with total income covering total expenditure. INTERPOL's budgetary policy aims to garner and safeguard financial resources and to allocate them to activities, while monitoring the satisfactory achievement of activity goals through budgetary control. Budget allocations are made to cost centres designated as responsible for the successful implementation of activities contained in the approved Programme of Activities. Reprioritized allocations, within the limits of the Financial Regulations, are made on the basis of justifications, with appropriate approvals that show an audit trail and preserve the cost neutrality of the overall approved budget.

31. Budgetary allocations are reflected in the tracked completion of the planned activities through individual KPIs for the business activities, or through a financial proxy for percent activity completion via the utilized portion of the allocated budget. Budgetary policy seeks to use such reporting to enable forecasts of year-end performance by analysing noteworthy trends, and to highlight areas where corrective or preventive actions are necessary to keep performance on track. Another aim of budgetary policy in this regard is to use trend analyses and forecasts to yield meaningful cost information for the budgets of future years.

32. The Financial Regulations contain provisions regarding the necessary levels of reserves for the Organization. INTERPOL's reserves are accounted for as Net Assets. They serve to mitigate against the impact of income shortfalls, permitting sufficient liquidity to meet short-term obligations while also maintaining solvency and financial stability. This is done by establishing the required level of reserves, in part, as a percentage of the Organization's budgeted annual expenditure. A second use of the reserves is to support the Capital Expenditure Budget.

33. The Financial Regulations also contain provisions for the Organization to manage its deposits and investments, in accordance with the principle of sound financial management, with banks and institutions that offer guarantees of morality and reputation, ensuring that certain criteria are met, namely (in order of priority) security (or preservation of capital), liquidity, and profitability, and seeking to benefit from the most favourable market conditions for risk and return.

I.3 OVERVIEW OF INTERPOL'S FINANCIAL STATEMENTS

34. INTERPOL's annual financial statements are prepared in accordance with the International Public Sector Accounting Standards (IPSAS), as mandated under Article 1.1(2) of the Financial Regulations.

35. The financial statements consist of:

36. **A Statement of Financial Position,** which provides information about the accumulated surplus/deficit at the reporting year end date, this being the difference between INTERPOL's total assets and total liabilities. It also provides information regarding the extent to which resources are available for supporting future objectives.

37. **A Statement of Financial Performance,** which measures the net surplus or deficit of the reporting year as the difference between revenues and expenditures. It also provides comparative information on the Organization's budget against actual revenues and expenditures. The annual surplus or deficit is presented on a full accrual basis of accounting, recognizing revenue in the period it is earned and expenses when incurred, regardless of when the associated cash was received or paid.

38. **A Statement of Changes in Net Assets,** which highlights changes in the Organization's overall financial position, including changes accruing due to the surplus or deficit for the period.

39. **A Cash Flow Statement,** which provides information on cash movements during the period resulting from operating and investing activities. In contrast to the Statement of Financial Performance measuring net surplus or deficit, the Cash Flow Statement measures the difference between cash coming in to the Organization and cash going out. It is prepared on an indirect basis from the Statements of Financial Position and Financial Performance.

40. **Notes to the Financial Statements,** including Significant Accounting Policies, which assist in understanding the financial statements and provide additional, explanatory information as required under IPSAS.

I.4 FINANCIAL STATEMENTS HIGHLIGHTS AND ANALYSIS

41. The Financial Statements for 2017, prepared in accordance with IPSAS, show a surplus for the year of EUR 2.092 million. Member country statutory contributions increased by EUR 1.622 million (3%), from EUR 54.013 million in 2016 to EUR 55.635 million in 2017. Support from the INTERPOL Foundation of EUR 3 million, for the second year under the five-year agreement, was received into the Regular Budget in 2017. The Organization's Net Assets increased from EUR 43.077 million at 31 December 2016 to EUR 45.169 million at 31 December 2017. The Organization's net cash flows from Operating Activities yielded EUR 14.526 million, enabling the addition of EUR 10.736 million to its Cash and Cash Equivalents accounts with its Banks and Financial Institutions.

42. The 2017 surplus arose on the Regular Budget, and is higher than the budgeted surplus of EUR 300,000 for 2017; the favourable variance against budget is therefore EUR 1.792 million. This favourable variance arose mainly because of lower Operating Expenses than budgeted, particularly as expenditure incurred on Pay Costs was lower than budgeted for 2017. Expenses were lower than budget in other categories also, such as Maintenance, Office Expenses, Telecommunications Costs and Depreciation Expenditure. On the income side, Reimbursements and Recoveries from Projects (consisting of overhead recoveries, expert fees and service charges invoiced to Trust Funds and Special Accounts) were higher than budget, contributing substantially to the favourable variance. Financial Income was also higher than budget.

43. However, higher-than-budget expenditures were incurred on Third Party and Other Costs, causing the favourable variance to be reduced. This concerns primarily the provisioning of statutory contributions for member countries sanctioned under Article 52, in accordance with IPSAS and comparable best practice of other international organizations. Other expense categories that were higher than budget include Missions and Meetings, Other Staff Costs and Premises Running Costs. An unforeseen erosion in the values of the US dollar and the Singapore dollar (two important transactional currencies for the Organization) against the euro, its reporting currency, led to exchange rate losses that considerably reduced the favourable variance against budget.

44. The Organization's equity thus increased by EUR 2.092 million during 2017 as a result of the financial surplus. The Capital Financing Reserve decreased by EUR 1.082 million as a result of capital expenditure being lower by an equivalent amount compared with Depreciation and Asset Disposals. Accumulated Reserve Funds increased by EUR 3.174 million because of the financial surplus and EUR 1.082 million recouped from asset depreciation in excess of Capital spending. The General Reserve Fund, Permanent Fund for Crisis Relief and the Regional Bureaus Reserve Fund showed 2017 year-end balances totalling EUR 18.975 million, the equivalent of operating expenditures for four months of 2017. The Capital Investment Fund balance at 2017 year-end represented 2.7 times the cover for capital expenditure spending in 2017.

45. Gross additions to tangible and intangible assets were EUR 3.509 million during the year. The Capital Expenditure Programme entailed expenditure of EUR 3.509 million against a budget of EUR 4.2 million, with 57% of the 2017 programme related to additions and upgrades to the Organization's IT and communications systems, and 43% for building works and security. Capital investments in intangible assets increased during the year compared with previous years. The Organization's Capital Programme was implemented at the rate of 86% for IPSG Lyon, 10% for IGCI Singapore, and 4% for RBs.

46. Cash and cash equivalents increased by EUR 10.736 million during the year, primarily on account of trust funds and special accounts, increases in employee future benefits, and decreases in statutory contributions receivable, although this was offset by decreases in statutory contributions received in advance and increases in accounts receivable. Of the total increase to cash and cash equivalents, euro currency balances increased by EUR 14.326 million, while the Organization intentionally reduced non-euro currency balances by the equivalent of EUR 3.59 million, due to the erosion of their value against the euro and the resulting losses during 2017. Cash balances, including on-demand deposits, increased by EUR 8.582 million, and cash equivalents increased by EUR 2.154 million.

I.4.1 Financial Performance – Analysis of revenues and expenses, and trends

47. The Statement of Financial Performance of INTERPOL shows a surplus for 2017 of EUR 2,092,000. The surplus arose on the Regular Budget and is higher than budget surplus of EUR 300,000 for 2017; the favourable variance against budget is therefore EUR 1,792,000. Chart 1 below shows the reconciliation between budget and actual 2017.

I.4.1.1 Budget result to actual result – a reconciliation for the Regular Budget

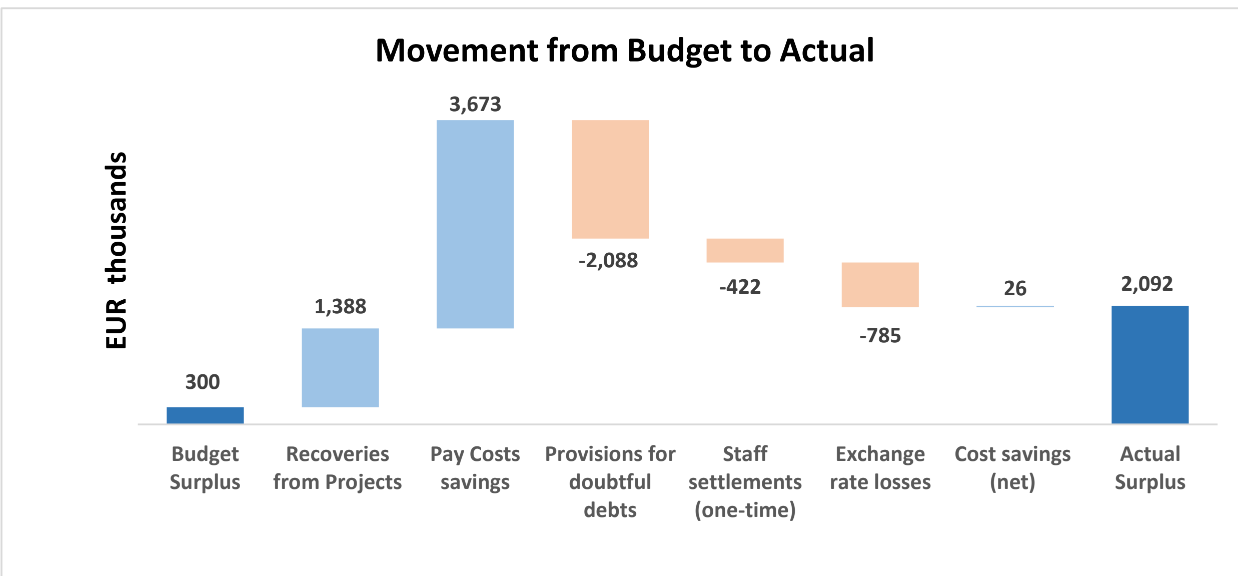

Chart 1: Movement from Budget Result 2017 to Actual Result 2017

48. The favourable variance was driven mainly by lower Operating Expenses than budgeted, particularly as expenditure incurred on Pay Costs was lower than budgeted for 2017. Pay costs continued to be driven lower due to a combination of vacant posts and voluntary departure settlements that were made with the expectations of lower future pay costs. Pay costs were lower than budget overall by EUR 4,214,000. After adjusting for internal taxes (included in the 2017 budget but eliminated in the Actual amount), and voluntary departure settlements (reported separately), net Pay Costs were EUR 3,673,000 lower than budget in 2017, as there were 70 vacant budgeted posts. Voluntary departure settlements cost EUR 422,000.

49. Expenses were lower than budget in other categories also, such as Maintenance, Office Expenses, Telecommunications Costs and Depreciation Expenditure. On the income side, Reimbursements and Recoveries from Projects, consisting of overhead recoveries, expert fees and service charges invoiced to Trust Funds and Special Accounts were EUR 1,388,000 higher than budget. Financial Income was also higher than budget.

50. However, higher-than-budget expenditures were incurred on Third Party and Other Costs, causing the favourable variance against budget to be reduced. This concerns primarily the provisioning of statutory contributions for member countries sanctioned under Article 52, in accordance with IPSAS and comparable best practice of other international organizations. Accordingly, EUR 2,088,000 was provided in 2017 towards doubtful debts. Combined with similar provisions made in 2016, it can be seen that the Organization has made full provision for all dues from Members sanctioned under Article 52 of the General Regulations. Though the Organization makes allowances for doubtful debts per its accounting policy, it however retains its rights for the receipt of the gross statutory contributions receivable.

51. Other expense categories that were higher than Budget relate to Missions and Meetings, Other Staff Costs and Premises Running Costs. An unforeseen erosion in the values of the US dollar and the Singapore dollar (two important transactional currencies for the Organization) against the euro, its reporting currency, led to exchange rate losses of EUR 785,000, reducing the favourable variance against budget.

52. Chart 1 above shows the reconciliation between the 2017 budget surplus of EUR 300,000 and the actual surplus in 2017 of EUR 2,092,000. It is be noted that both budget and actual operating revenues in 2017 include the continuing support within the Regular Budget from the INTERPOL Foundation for a Safer World of EUR 3 million as unrestricted voluntary contributions with no specific purpose.

I.4.1.2 Total Operating Revenue against budget and last year

53. Chart 2 on the next page shows the breakdown of Total Operating Revenue in respect of the Regular Budget and Trust Funds and Special Accounts for 2017 against the budget for 2017 and 2016. As may be observed, performance across the Regular Budget categories dipped in 2017 against 2016, due to enhanced performance registered on Trust Funds and Special Accounts during the period. However, Trust Funds and Special Accounts still under-performed against budget 2017, even if they were above the 2016 level.

54. With nearly EUR 60 million available in Trust Funds and Special Accounts at year-end 2017, the Organization seeks to continuously raise the implementation rate for externally sponsored projects in the immediate future, increasing from EUR 23 million in 2016 and EUR 34 million in 2017. This strategy is driving growing staff recruitments on project accounts, while reducing staffing levels on the Regular Budget. This strategy allows lower operating costs and yields higher surplus on the Regular Budget, since higher overheads are recovered from project expenses. The following paragraphs provide more explanation on the strategy, and the subsequent section considers the risks and uncertainties aspects of the strategy in detail.

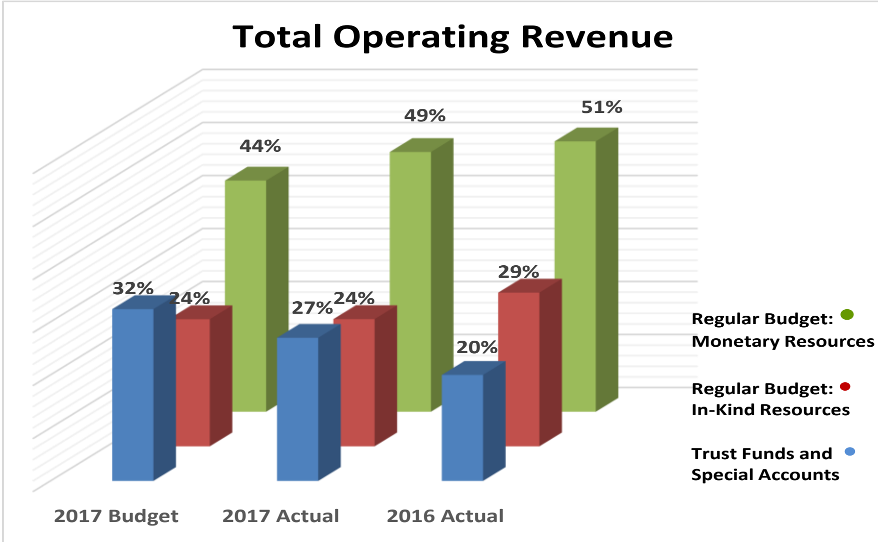

Chart 2: Total Operating Revenue in 2017 against budget and last year

I.4.1.3 Total Operating Expenditure against budget and last year

55. Chart 3 below depicts the breakdown of Total Operating Expenditure in 2017 against budget 2017 and 2016. The lower level in 2017 of Pay Costs, including In-Kind Pay Costs, against both budget 2017 and 2016, is noteworthy, as it considerably influenced the reported financial surplus during 2017.

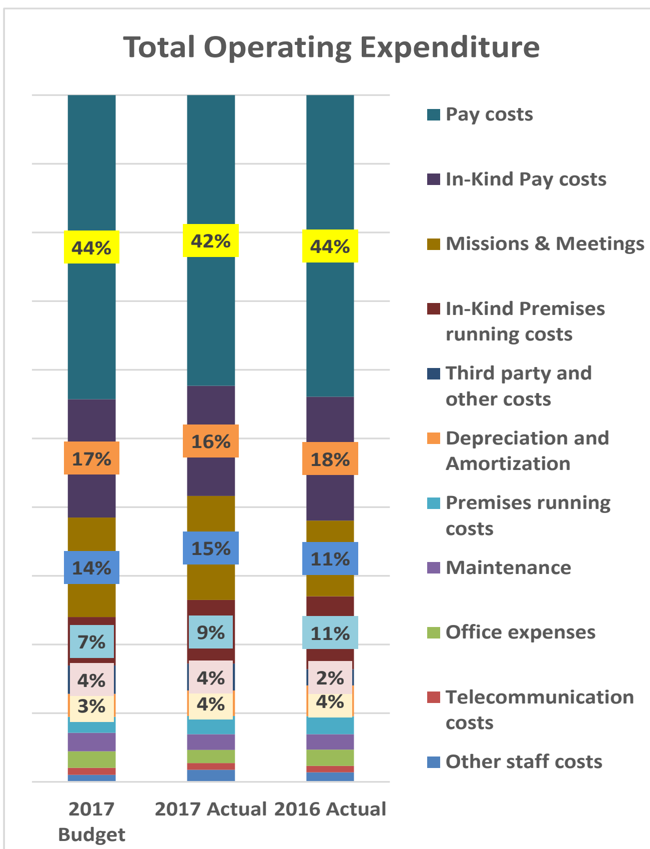

Chart 3: Total Operating Expenditure in 2017 against budget and last year

I.4.1.4 Five-year trend of operating revenues and operating expenditures

56. Total operating revenues grew by 7% on a compounded basis over the past five years, while Trust Funds and Special Accounts grew by 19% over the same time period. Charts 4 and 5 below summarize the five-year trend in respect of operating revenues and operating expenditures. The reduced share of regular budget monetary resources, and the growing dominance of in-kind contributions and Trust Funds and Special Accounts on the Organization's revenue mix, can be seen in Chart 4. The impact of lower pay costs on operating expenditure from the years after 2014 is evident in Chart 5.

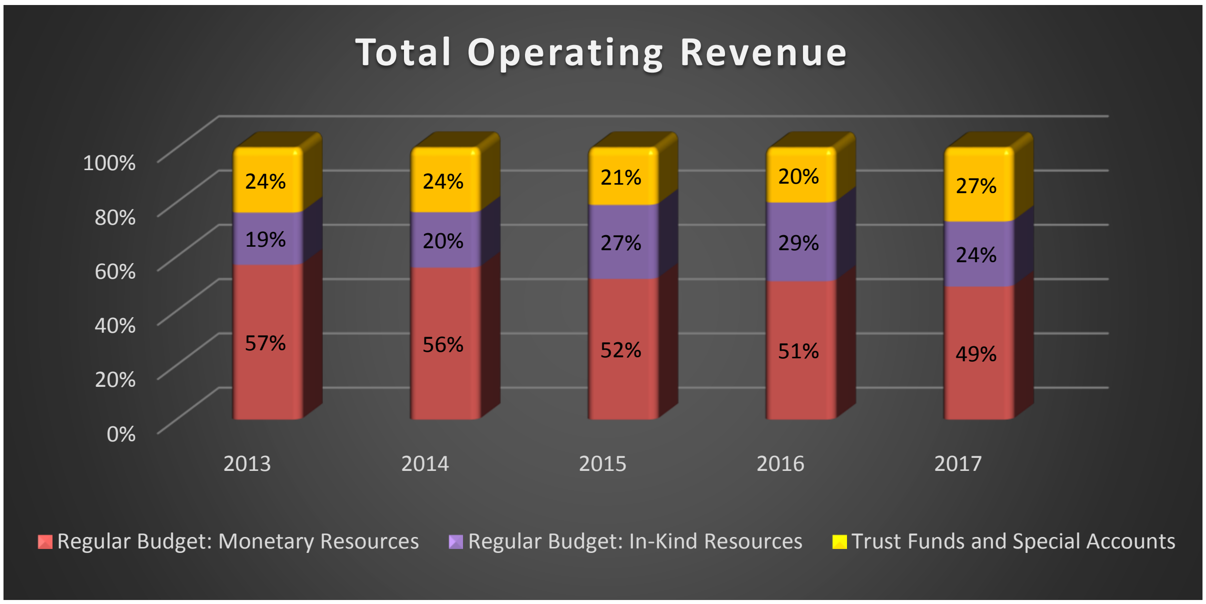

Chart 4: Trends in total operating revenue over the years

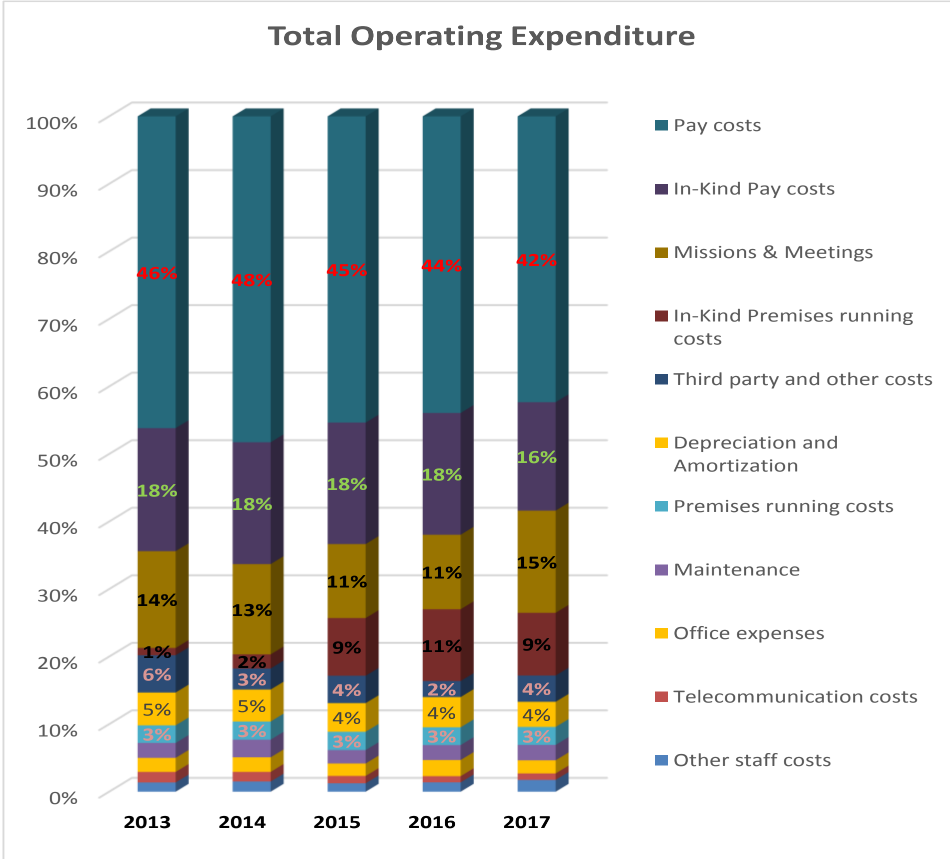

Chart 5: Trends in total operating expenditure over the years

I.4.1.5 Five-year trend of operating revenues and surplus/deficit

57. Chart 6 below depicts the five-year trend of annual operating revenues and the resulting annual surplus/deficits. The beneficial impact of lower operating expenditure on the growth of budget surplus during 2016 and 2017, after deficits in previous years, is visible over the five years displayed in the chart.

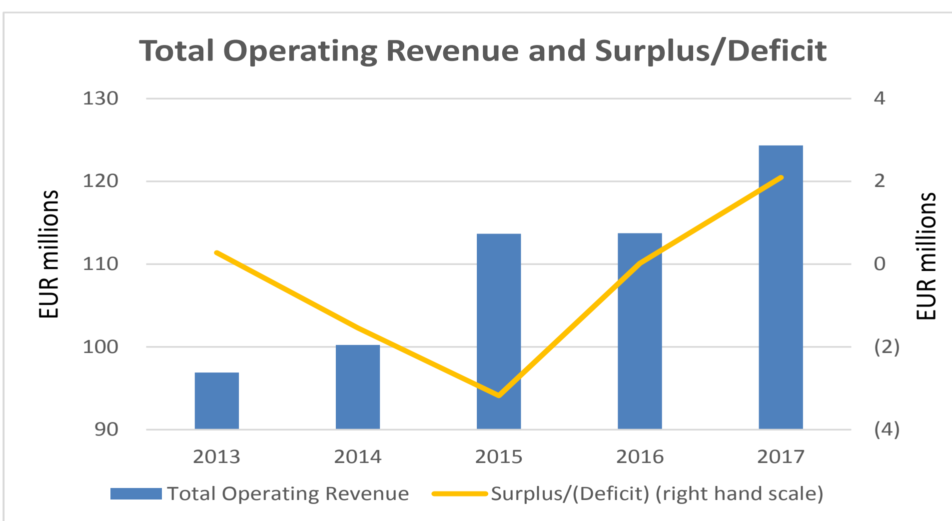

Chart 6: Trends in total operating revenue and surplus/deficit over the years

I.4.1.6 Progress in collection of statutory contributions

58. An important performance indicator of financial management for the Organization is the collection rate for called-up statutory contributions that was achieved during the year. Chart 7 below shows the trend in this respect as having always been above 96.5%, with one year (2014) being above 98%. The remaining dues for the year are almost always collected in the following year, with residual uncollected amounts outstanding over two years obliging non-paying Members to face sanctions under Article 52 of the General Regulations.

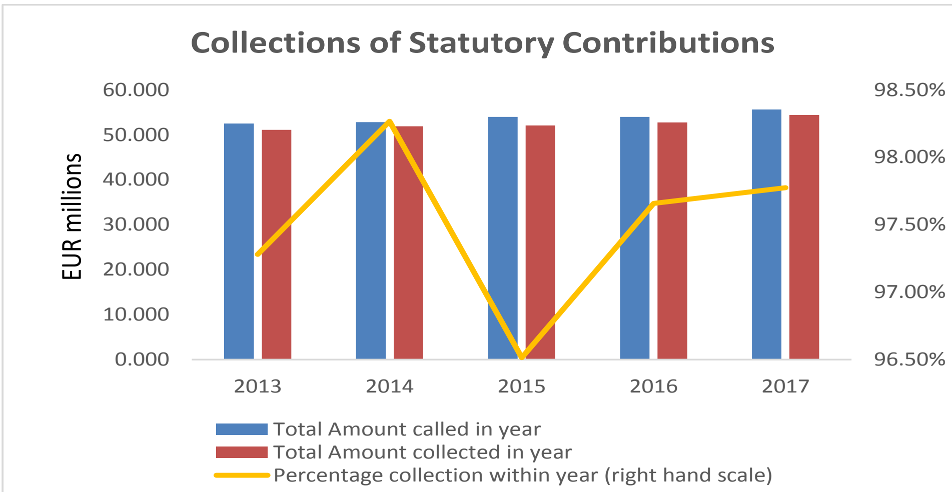

Chart 7: Trend in collecting statutory contributions called up

59. Such residual non-collectible portions amount to a little under 0.50% on average, having accumulated to EUR 3.161 million from 2002 to 2017: nearly EUR 200,000 or 0.50% of the total amount called up on average each year. These have been provided for as doubtful debts within the Financial Statements for 2017, though the called-up contributions due have not been cancelled and member countries in arrears continue to be sent reminders and notices to make payment or to conclude debt-rescheduling agreements that would allow the Article 52 sanctions against them to be lifted. Chart 8 below recaps the situational trend for countries under Article 52 sanctions and their dues.

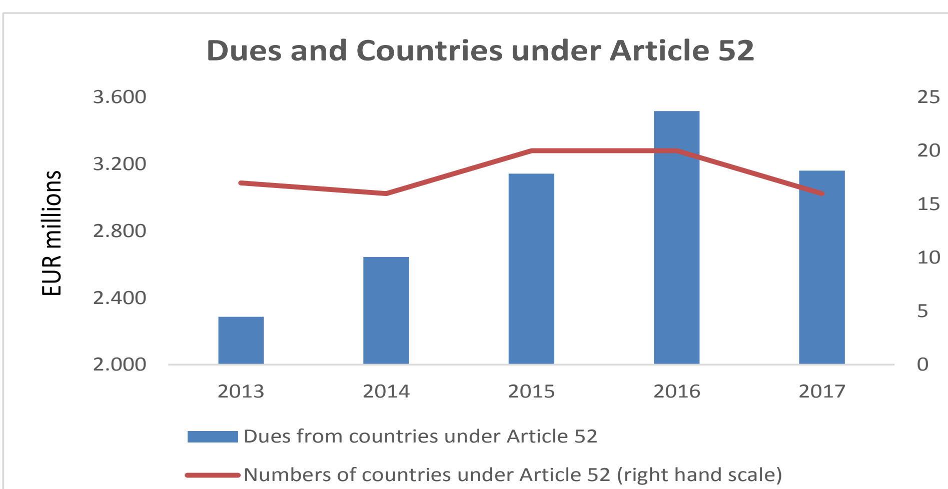

Chart 8: Trend in countries under Article 52 sanctions and amounts owed

60. However, while Chart 7 above depicts the total rate of collection for called-up statutory contributions, it masks the fact that the collection rate on Regional Bureau budgets is much lower than that on the General Budget. This is shown below in Chart 9, where the rate for RB budget collection is seen to trend lower than that for the General Budget which hovers just under 100%. Such a low collection rate has important implications for the implementation of the RB Strategy, and this is discussed further in the subsequent section on strategic risks.

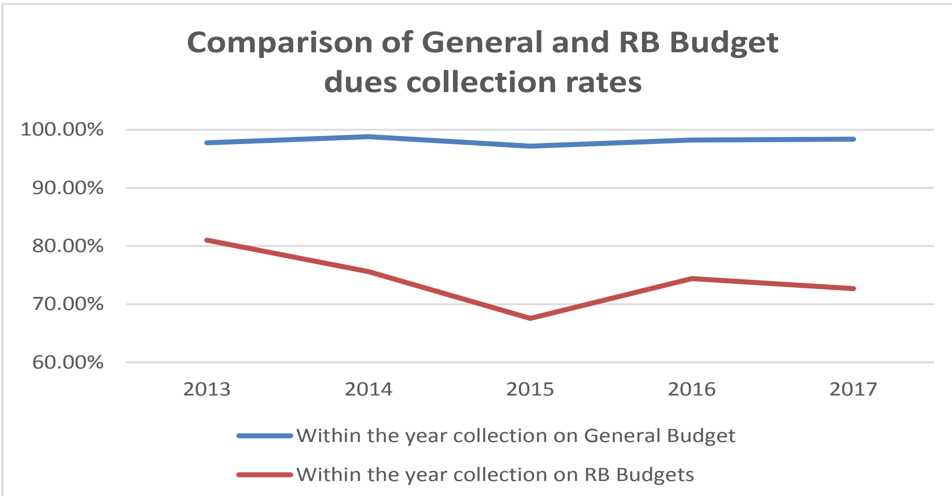

Chart 9: Comparison of collection rates between General and RB budgets

61. Chart 10 below shows another aspect where RB strategy implementation needs improvement, namely the incomplete utilization of called-up statutory contributions to finance RB activities. As may be seen, in all of the years preceding 2016, called-up contributions were not fully utilized, with unused funds added to the RB reserve fund at year-end, except in 2017 when an accounting provision made in respect of member countries under Article 52 sanctions pushed RB Budget performance into deficit. Given the adequate level of reserves for individual RBs, strategies for improved utilization of these reserve funds, in combination with called-up contributions, is needed.

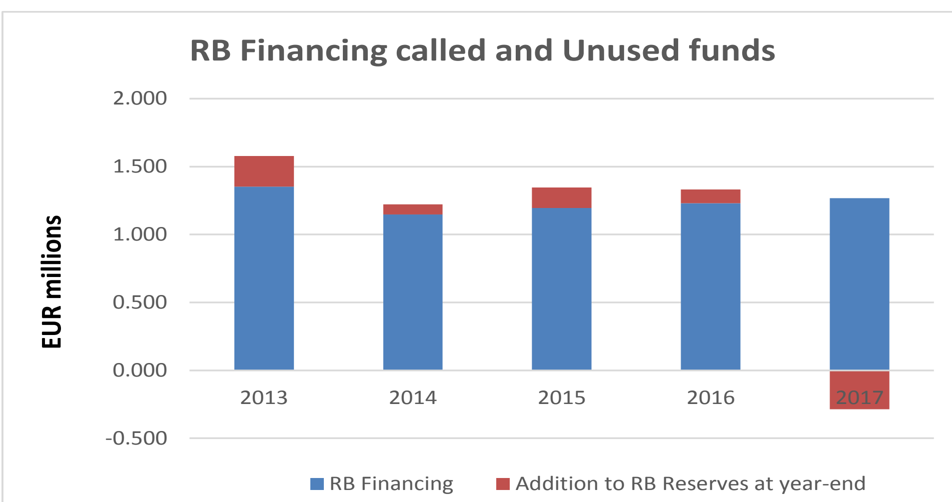

Chart 10: Trend in utilization of RB financing

I.4.1.7 Developments in pay costs, staff numbers and office premises

62. In seeking strategically to focus more on projects funded out of Trust Funds and Special Accounts, the Organization has been recruiting staff and incurring pay costs on these budgets, while simultaneously reducing staff levels and pay costs on the Regular Budget, as mentioned earlier. Charts 11 and 12 below clearly show this development.

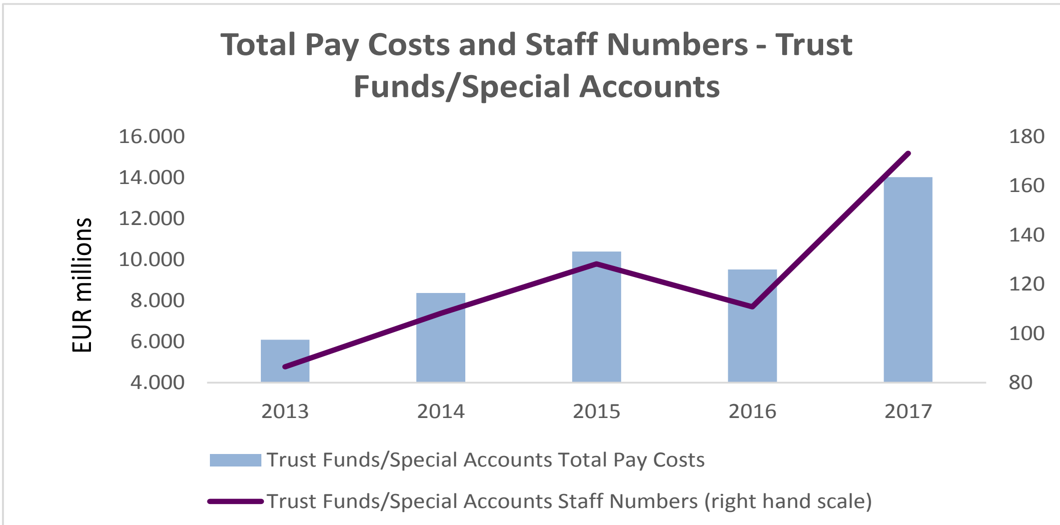

Chart 11: Pay costs and average staff numbers on Trust Funds/Special Accounts

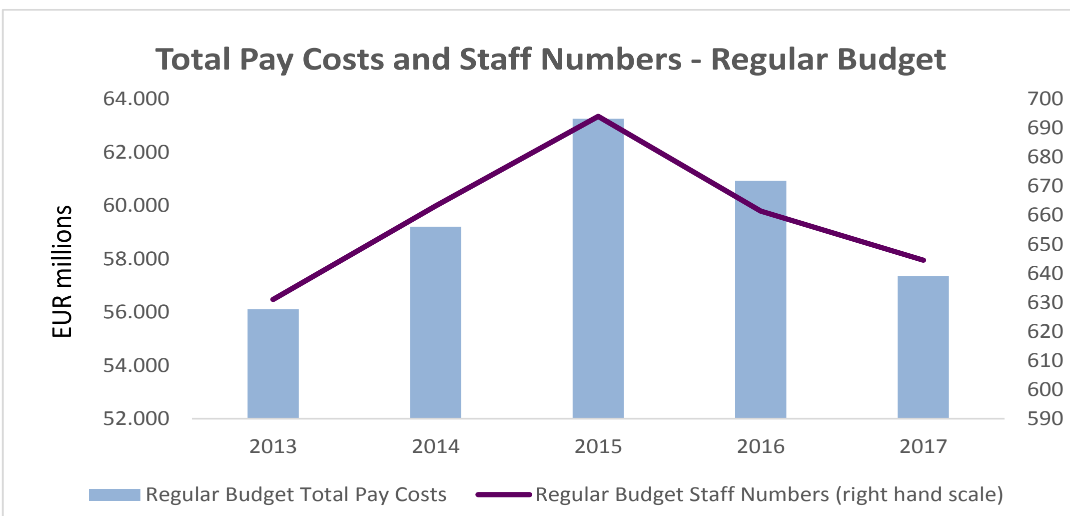

Chart 12: Pay costs and average staff numbers on Regular Budget

63. The movement highlighted above, of declining staff numbers on the Regular Budget, is also reflected in the number of staff members seconded by member countries, as the Organization shifts its strategic focus to the execution of projects. This is depicted in Chart 13 on the next page.

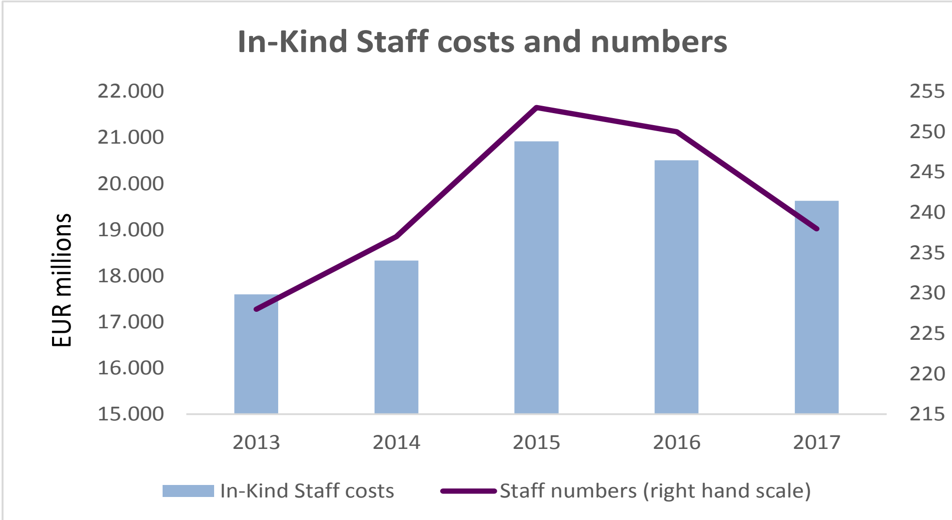

Chart 13: In-kind staff costs and staff numbers

64. However, the increasing support of member countries is evident by their provision of office premises to accommodate staff, as shown in Chart 14 below. The sharp increase from 2015 for office premises made available to the Organization is due to the IGCI building in Singapore becoming operational, with provision for accommodating 200 staff members.

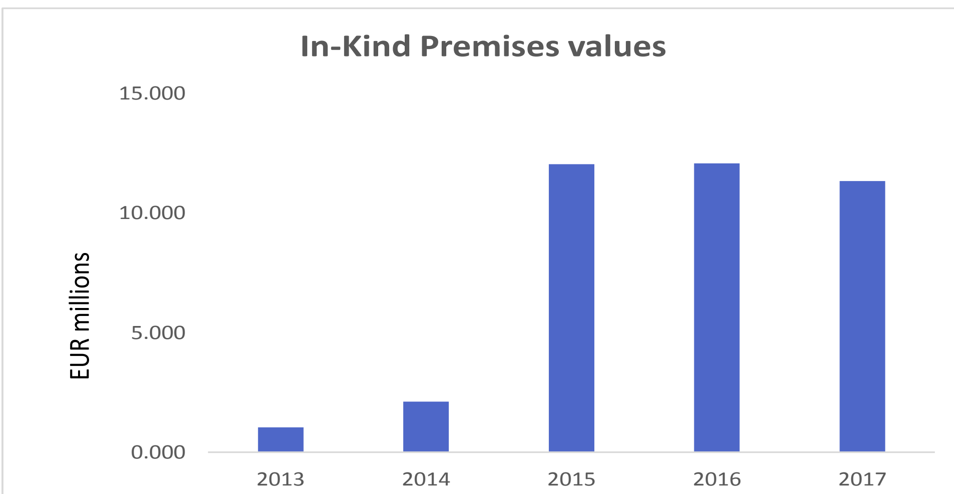

Chart 14: In-kind premises

I.4.1.8 Trend in implementing projects and resource addition to the Regular Budget

65. The success of the strategy of focusing more on project execution is evident in the growth of average amounts available each year for implementing projects. As may be seen in Chart 15 on the next page, amounts available on average from external donors have shown an increase that has become more pronounced in recent years. Utilization of these resources lagged in initial years, but is now on course, with some showing improvement from 2017.

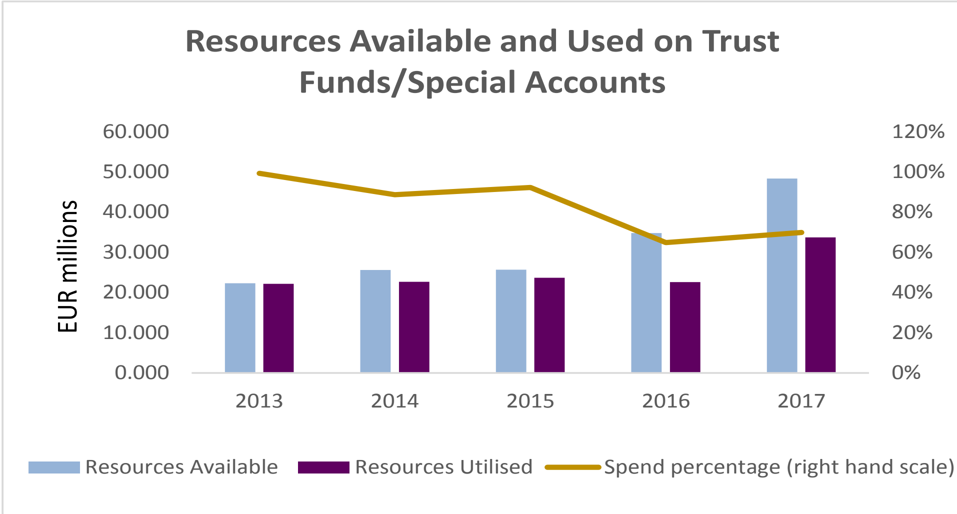

Chart 15: Resource availability and utilization by projects

66. Growth in the execution of projects continues to add resources to the Regular Budget as depicted in Chart 16 below, through overheads and expert charges recovered from such externally sponsored projects. Financial year 2017 showed substantial recoveries from projects, even if the recovery rate remained subdued in comparison to previous years. While a rate of 13% is being targeted as a comparable benchmark against other international organizations, achieving this rate may be closely related to improving the use of available project resources.

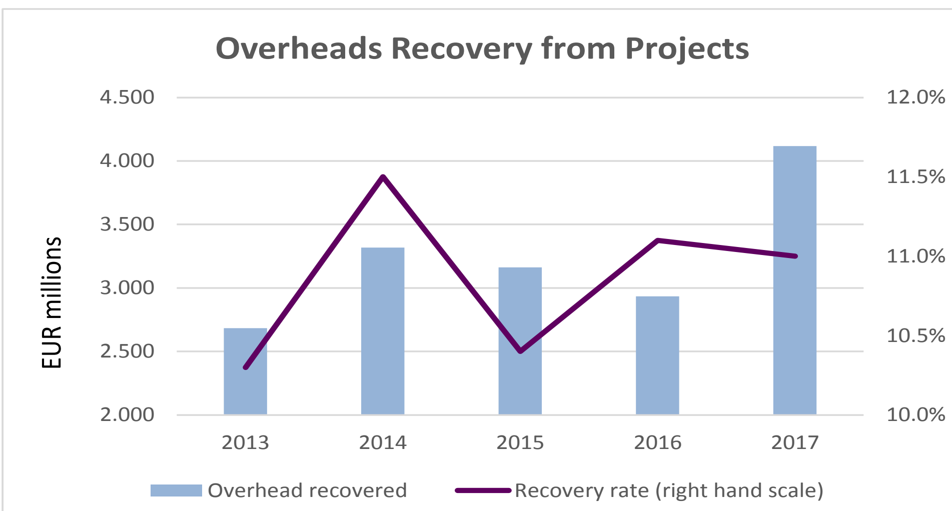

Chart 16: Overheads recovered from projects

I.4.1.9 Progression of regular budget financial income

67. Cash and Cash Equivalents in the Organization's possession continue to grow as shown below in Chart 17. Due to the current depressed interest rate environment and the paucity of suitable investment products, the rate of financial return on such balances for the Organization has continued to drop lower as shown on the right-hand scale of Chart 17 on the next page. A suitable treasury policy to address investment returns that could be available for re-calibrated risks is presently being developed to improve financial income accruing to the Regular Budget.

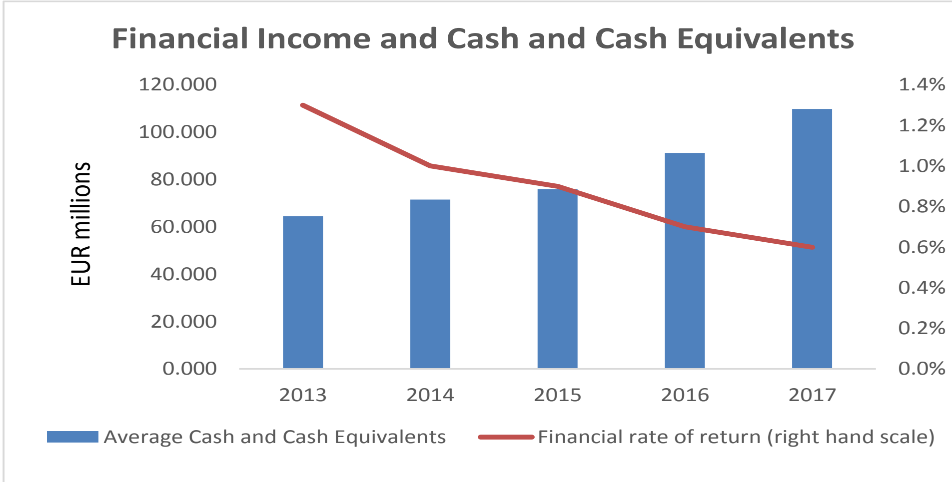

Chart 17: Financial income received on the regular budget

I.4.1.10 Non-EUR currency balances and exchange gains/(losses)

68. The Organization holds nine currencies for the purpose of funding operations at all of its offices, including the EUR (euro) which is its reporting currency. The Organization also uses the USD (United States dollar) and the SGD (Singapore dollar) as two other important trading currencies. Moreover, the Organization conducts purchases of goods and services in 45 additional currencies. An unwanted side-effect of holding and transacting in different currencies is the volatility induced in financial reporting due to exchange-rate fluctuations of these currencies against the euro. Chart 18 below captures the gain (during years 2014, 2015 and 2016), or loss (in 2013 and 2017), reported in the financial statements due to holding such diverse currencies, of which balances held are also depicted in the graph below. A suitable strategy for currency holdings is expected to be addressed as part of the development of the overall treasury policy mentioned earlier.

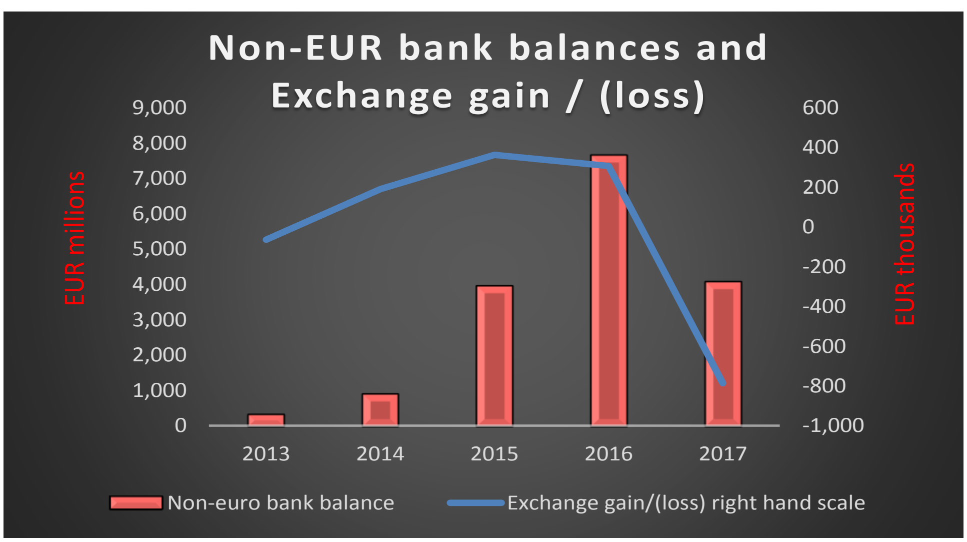

Chart 18: Exchange gains and losses due to non-euro balance holdings

I.4.1.11 Operating and reported surplus/deficit over the years

69. Table 1 below provides a reconciliation between the operating surplus/deficit before special items and the reported surplus/deficit, over the past five years. As seen in the rightmost columns of the table, the funding of EUR 3 million that was received from the INTERPOL Foundation during 2016 has been of tremendous support in converting the operating deficit during the year into a reported surplus. Therefore, the importance of continued funding from such diversified funding sources assumes significance in the discussion in the following section on the principal risks and uncertainties faced by INTERPOL.

70. Also as may be observed in the table below, the settlement entered into during 2015 for the Red Notices case, cost the Organization EUR 1.5 million on a net basis, after insurance recoveries, and pushed the result deeper into deficit in that year. The discussion on risks and uncertainties in the following section devotes attention to the threats in this domain also.

EUR thousands	**2013**	**2014**	**2015**	**2016**	**2017**
Operating Surplus/(Deficit)	273	(1,541)	(1,668)	(1,907)	1,180
Provision for doubtful contributions				(1,073)	(2,088)
Red Notice Case Settlement (net)			(1,511)		
INTERPOL Foundation Support				3,000	3,000
Reported Surplus/(Deficit)	**273**	**(1,541)**	**(3,179)**	**20**	**2,092**

Table 1: Operating surplus/(deficit) before special items and reported surplus/(deficit)

I.4.2 Financial Position – Analysis of assets and liabilities, and important changes.

I.4.2.1 Developments in assets and liabilities

71. Charts 19 and 20 on the next page show the progression in, respectively, current assets/current liabilities, and total assets/total liabilities, together with the applicable current ratio and the total assets/liabilities ratio.

72. Whilst current assets grew 14% on a compounded basis over the five-year reference period, current liabilities grew 18% over the same period, as a result of which the current ratio worsened by 4% over these five years. An important reason attributable to the growth in current liabilities is the growth in trust funds and special accounts which grew 21% on a compounded basis over the same period. Improvements expected to project execution rates in future are should stimulate improvements in the current ratio.

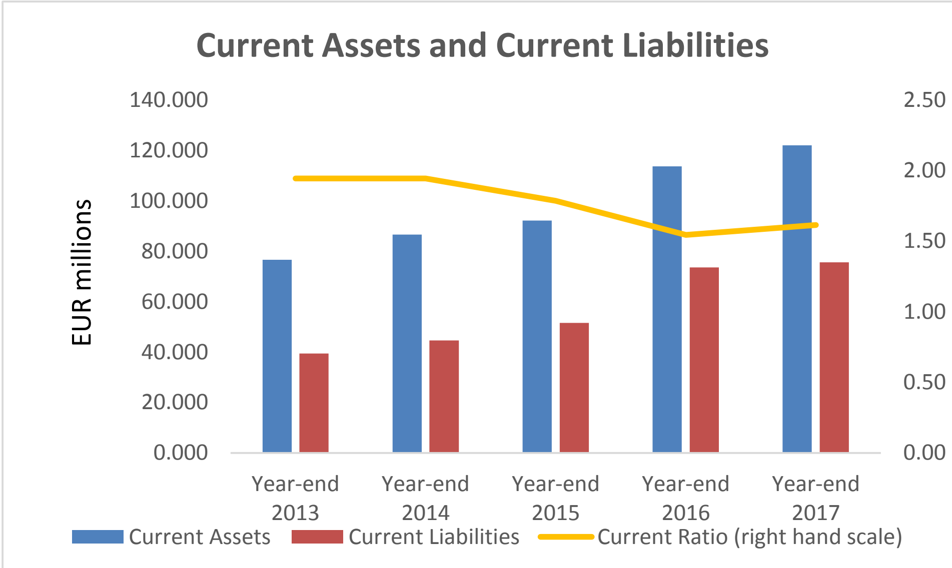

Chart 19: Current assets, current liabilities and current ratio

73. Total assets grew 10% on a compounded basis over the five-year reference period, while total liabilities grew 17% over the same period, as a result of which the total assets to total liabilities ratio worsened by 7% over this period. An important reason attributable here is the growth in the Defined Contributions Pension Scheme which grew 20% (compounded annually) over the same period, in addition to the growth in trust funds and special accounts, a topic that was covered above. Growth in the Defined Contributions Pension Scheme is discussed in a separate section below.

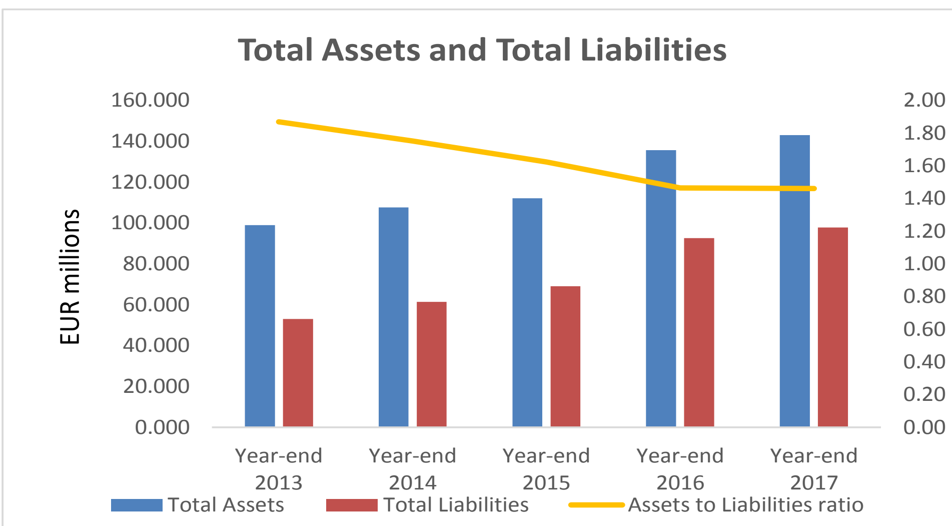

Chart 20: Total assets, total liabilities and ratio

74. Another important reason to be noted is that non-current assets did not grow as much as current assets, as a result of which growth in total assets has remained constrained. Chart 21 on the next page shows that while non-current assets remained at roughly comparable levels over the reference five years, plant, property and equipment has continuously declined during that time. Intangible assets, on the other hand, after a period of decline from 2013 to 2015, have grown back to 2013 levels due to the relevant investments that were made in 2017.

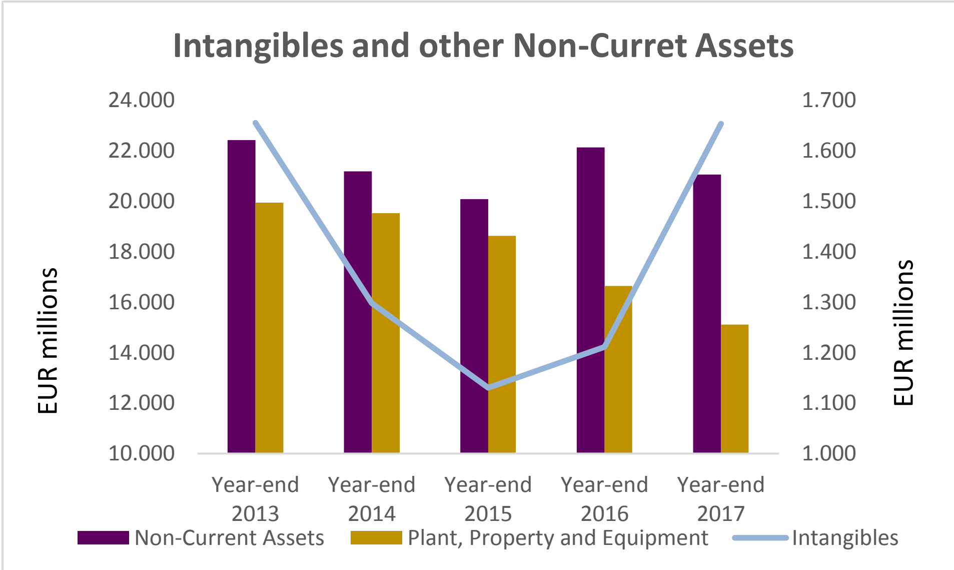

Chart 21: Non-current assets, plant, property and equipment and intangibles

I.4.2.2 Capital Expenditure Programme 2017

75. These investments are seen more clearly as part of the Capital Expenditure Programme implemented by the Organization in 2017. As depicted in Charts 22 below and 23 on the next page, actual capital expenditure was lower than budget during 2017, though above 2016. As seen in Chart 22, building and security assets saw uniform investments during 2017 and 2016, which was also in line with 2017 budget. However, investments in IT systems and communications (which includes intangible assets as an asset class), were lower than budget 2017, although above 2016. Given the importance of intangible assets for the Organization, more investments are envisaged for the future in consonance with the Strategic Framework approved by the General Assembly.

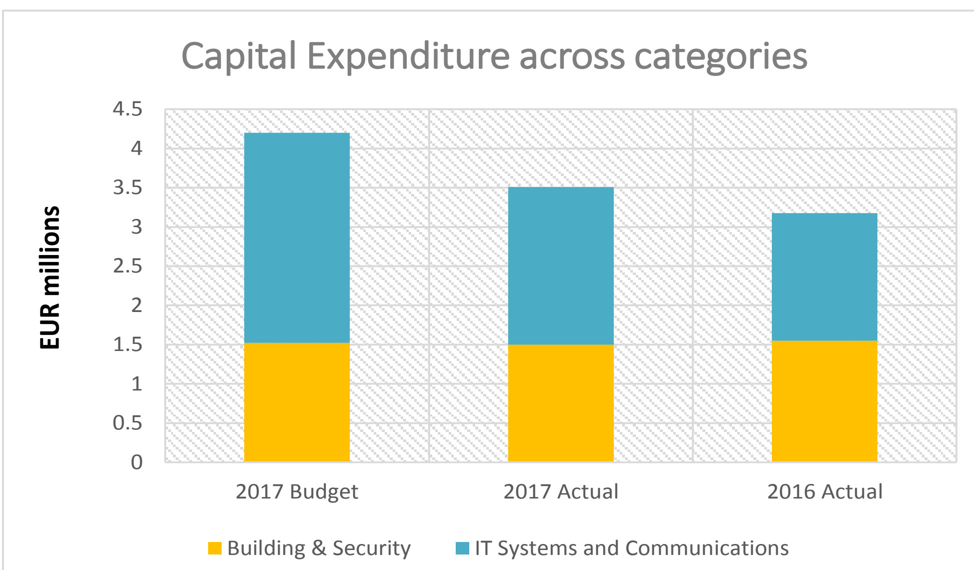

Chart 22: Capital expenditure across asset categories

76. In respect of the different locations, 2017 capital spending in IPSG Lyon trailed budget 2017, particularly in software and database projects. While IGCI Singapore saw higher overall spending than budget, database project spending was lower than budget there too. Investments planned in the 2017 budget for NCBs were not made at all, as seen in Chart 23 below.

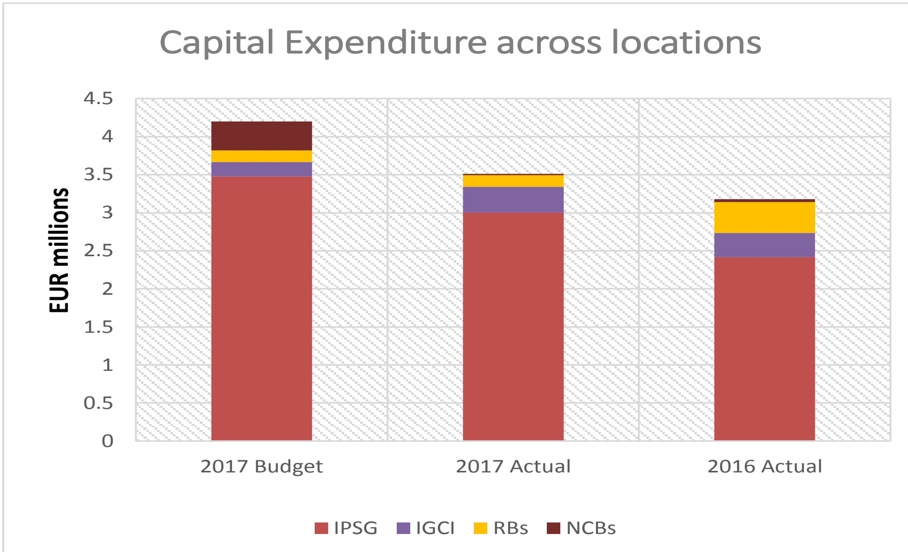

Chart 23: Capital expenditure across locations

I.4.2.3 Trend in capital expenditure budget implementation

77. Given the fact that capital expenditure implementation has consistently been lower than budget over the past five years, as shown by Chart 24 below, and also given that the property, plant and equipment base of the organization is declining, it is strategically important for the Organization to improve project execution in this domain. Also, the Organization is mindful that current externally sponsored projects, which are mostly operationally oriented, do not add to the capital assets base of the Organization. Hence, future project selections will be driven by this strategic imperative.

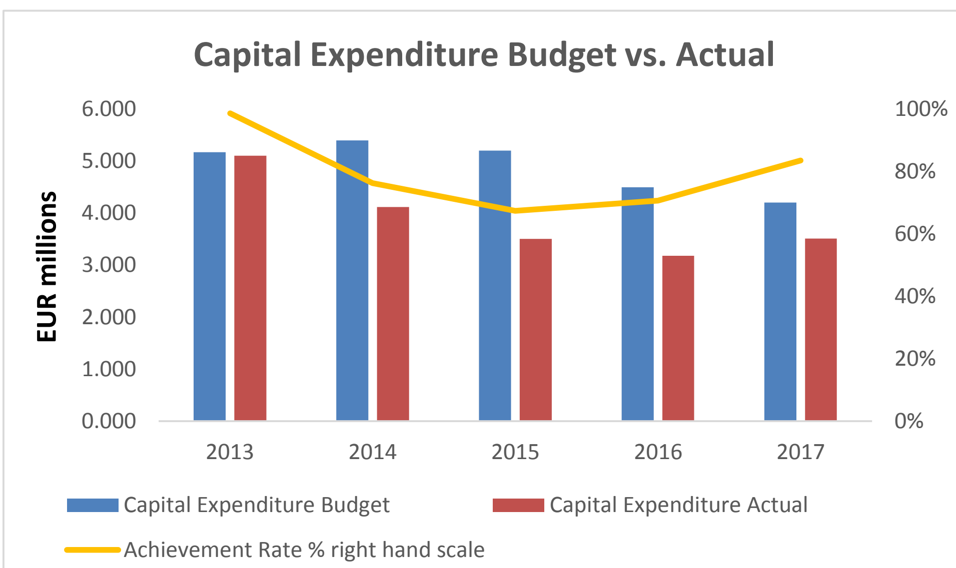

Chart 24: Capital expenditure budget implementation over the years

I.4.2.4 Building and office premises

78. Included as part of property, plant and equipment is the General Secretariat building in Lyon, France. Chart 25 below shows its declining net book value over the past five years, together with lease costs for additional office space in Lyon and elsewhere, and in-kind premises available to the Organization for its operations assessed at fair value in lease terms. Insofar as the execution rate for projects is being ramped up, available office space may be perceived to be a constraint to the successful achievement of project completion, and combined with the fact the Organization needs to counteract declines in its asset base (including due to annual depreciation), it may be profitable to examine the available options in this area. With changes to IPSAS imminent in respect of lease costs, in line with changes in IFRS and the introduction of IFRS 16, whereby the values of leased assets will have to reflected in financial statements as capital costs to provide comparability, together with the associated liabilities for making lease rental payments, all preferences and available choices may have to be considered in this matter before selecting the most appropriate strategic option.

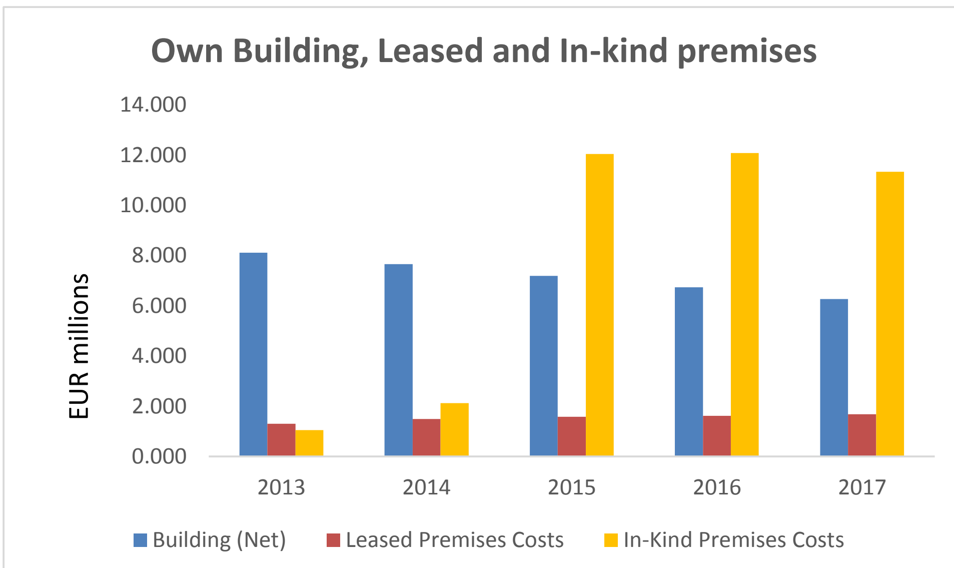

Chart 25: Operational premises availability

I.4.2.5 Non-current Liabilities – Defined-Contribution Pension Scheme

79. Chart 26 on the next page shows the trend in respect of the Organization’s Defined-Contribution Pension Scheme between 2013 and 2017. Scheme assets and liabilities (both being equal as befits a defined-contribution plan) and affiliated employee numbers posted robust growth between 2013 and 2015. This was followed by a drop in employee affiliations in 2016 on account of staff reductions on the regular budget. 2017 saw an increase when staff added on projects were affiliated to the scheme.

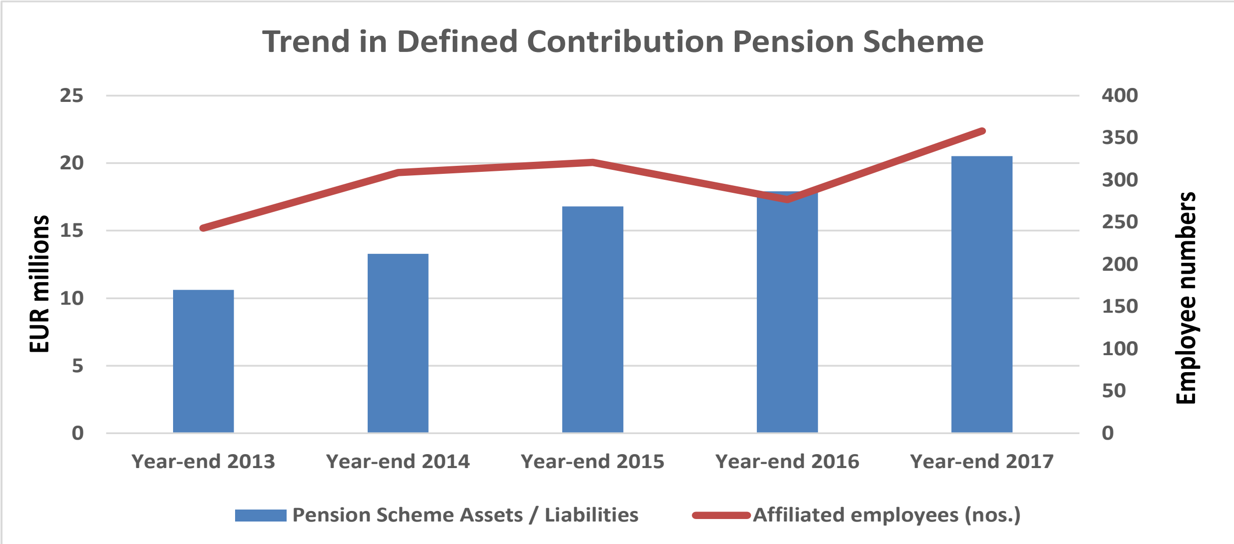

Chart 26: Defined-Contribution Pension Scheme

80. Interest income accruing to the Defined-Contribution Pension Scheme, as shown in Chart 27 below, has been low largely as a consequence of the low interest rate environment.

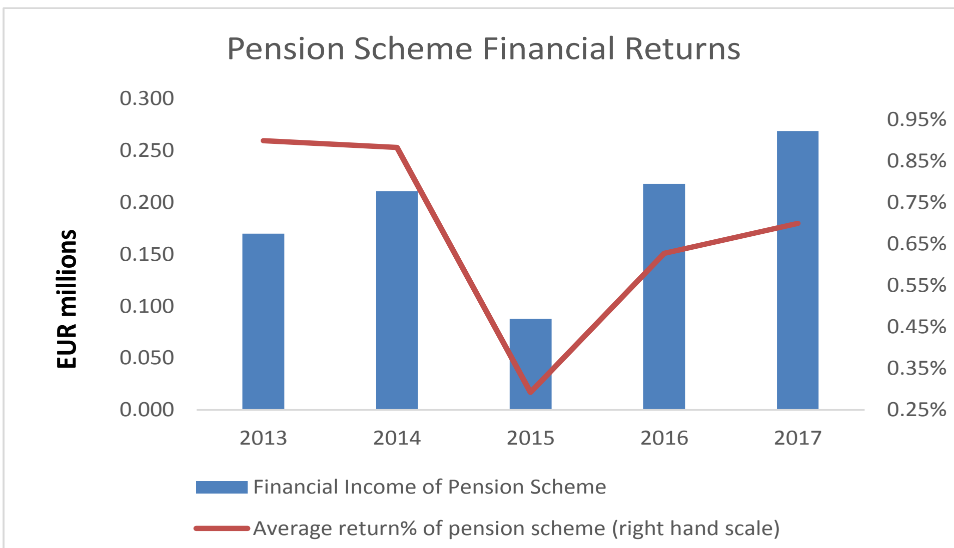

Chart 27: Financial returns of the DC Pension Scheme

81. The pension scheme is not legally separate from the Organization. The Organization manages the pension scheme financial assets alongside its own financial assets. The scheme is currently administered internally and both its assets and liabilities are shown within the Organization's Statement of Financial Position as part of Cash with Restricted Use, being employee benefits that have been deferred for pay out in future to the extent of their individual contributions, complemented by the Organization's contributions, together with accrued financial interest on the total contributed capital.

82. In application of a 2016 General Assembly resolution, the Organization is now authorized to create and manage the INTERPOL Pension Fund, after having defined the benefits, entitlements and pensionable age that will be vouchsafed to the Organization's officials covered under the scheme. In the event of a delay in the planned scheme conversion discussed below, separate investment policies for these funds may have to be developed for improving returns against specifically acceptable risks which are likely to be different to those subsisting in an organizational context.

83. On the creation of the INTERPOL Pension Fund as an integral part of the Defined-Benefit Pension Scheme, the officials presently affiliated to the Defined-Contribution Pension Scheme will be invited to contribute their individual capital as mentioned in the paragraph above, in order to acquire proportionate pension rights under the transformed scheme. Consequently, if the pension scheme is thus transformed, employees will stand to benefit by drawing monthly pensions on their retirement from active employment in proportion to their active service period in the Organization, and the distinction between their contributed capital and interest earned thereon will then be lost.

I.4.3 Changes in net assets – Analysis and discussion of organizational Funds

84. The Capital Financing Reserve of the Organization decreased by EUR 1,082,000, on account of the net decrease in intangible assets and to property, plant and equipment by an equivalent amount. Accumulated Reserve Funds increased by EUR 3,174,000, owing to an increase in the Capital Investment Fund by EUR 1,082,000 combined with the year's financial surplus of EUR 2,092,000.

85. The above surplus in the Organization's Regular Budget was recorded on its two corresponding reserve funds. The level of the General Reserve Fund increased by EUR 2,378,000 due to the surplus accruing on the General Budget, whilst the level of the RB Reserve Fund fell by EUR 286,000 due to a deficit on the specific Regional Bureau budgets.

86. An amount of EUR 2,088,000, relating to provisions for statutory contributions due from member countries sanctioned under Article 52, considered as doubtful receivables, was divided up as EUR 1,555,000 pertaining to General Budget dues, and the balance of EUR 533,000 as concerning RB Specific Budget dues. The former amount was reduced from the General Reserve Fund and the latter amount from the RBs Reserve Fund. The surplus arising on the General Budget before making the provision was EUR 3,933,000 and the surplus arising on the RBs Specific Budget before making the provision was EUR 247,000.

87. EUR 783,000 was transferred to the General Reserve Fund from the Special Allocations Fund due to the latter fund's becoming redundant as a consequence of amendments to the Financial Regulations made in previous years, allowing the receipt of voluntary contributions directly into the Regular Budget. The 85th General Assembly approved the transfer of the funds as part of the budget for 2017.

88. The General Reserve Fund (GRF) stood at EUR 16,905,000 at the end of 2017 after all of the above operations. The RBs Reserve Fund stood at EUR 1,215,000 at the end of 2017. The level of the Permanent Fund for Crisis Relief (PFCR) remained unchanged during 2017, as expenses incurred on crisis relief activities through the deployment of Incident Response Teams (IRTs) were budgeted and absorbed on the Regular Budget. The PFCR was last used in financial year 2011 and, since 2012, there has been no crisis relief activity needing support from this Fund. It may therefore be constructive to

dispense with this Fund and transfer its resources into the General Reserve Fund. Since, under the current Financial Regulations, the resources of the PFCR are counted as part of the General Reserve Fund, and as all crisis relief activities supported by IRTs are budgeted and absorbed on the Regular Budget, there is no need felt here for a separate mechanism of resourcing and control.

89. The General Reserve Fund level at EUR 16,905,000, combined with the level of the Permanent Fund for Crisis Relief (PFCR) at EUR 855,000, is higher than the compliance level stipulated by the Financial Regulations. The compliance level is computed as EUR 9,624,000 and the combined Funds amount to EUR 17,760,000. The sum of EUR 8,136,000, representing around 46% of the combined levels of the GRF and PFCR, is therefore in excess of the regulatory requirement.

90. The Capital Investment Fund (CIF) stood at EUR 9,428,000 at the close of 2017. As it is proposed that capital expenditure budgets for the years 2018 to 2020 be implemented at a level of EUR 6 million in each year, the total available in the fund is more than adequate to support them.

91. Chart 28 below shows the trend in respect of the Organization's Accumulated Reserve Funds between the years 2013 and 2017, based on balances in the various Funds at the respective year-end dates. The combined level of the General Reserve Fund and the Permanent Fund for Crisis Relief against the statutory compliance level is also depicted in Chart 28.

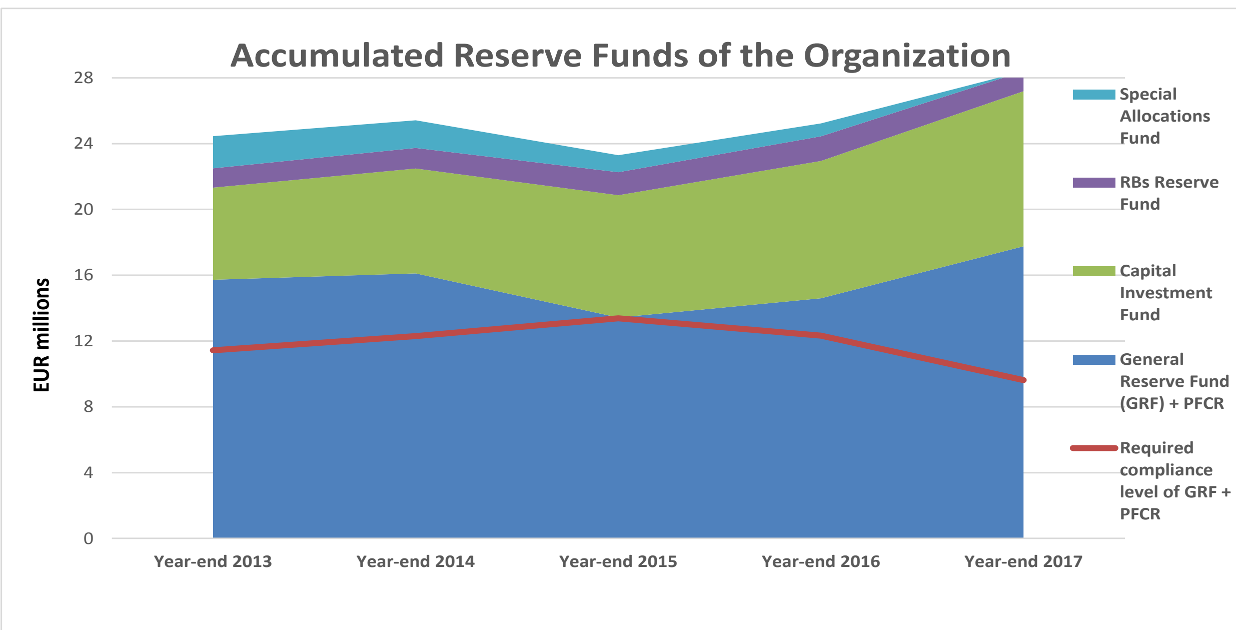

Chart 28: Accumulated Reserve Funds

92. The total accumulated reserves fund situation, at slightly above EUR 28 million at year-end 2017, appears to be indeed quite healthy. Additionally, the fact that the General Reserve Fund is in compliance with the regulation relating to its mandatory level, despite a minor drop in the level of this important Fund and of the total reserves of the Organization at year-end 2015, lends considerable credence to the view that the Organization stands well poised financially to deliver on its stakeholder strategy for the future, particularly as regards growth and expansion of its regular and specialized activities.

93. The development of its base of capital assets that needs to be supported out of the Capital Investment Fund also augurs well because of the abundant level of this Fund. The resources available in the RBs Reserve Fund also bode well for the Organization's regional developmental strategies for the future, though individual RBs may need to ensure better compliance by member countries of their commitments in respect of paying statutory contributions. Individual RBs with negative Reserve Fund balances also need to develop strategies to address the deficit.

94. The Organization is currently developing two projects to assist member countries in their development. The projects are stand-alone and are being designed to improve the Organization's overall policing capabilities, and to support those member countries that are in most need. The I-Core project (INTERPOL Capabilities for Operational Relevance), will result in the development and integration of its policing tools and build a solid, integrated platform for carrying out policing operations. The I-One project (INTERPOL Operational Network Expansion), is designed to integrate the various I-24/7 expansion projects that the Organization has undertaken, together with the coordination of its NCB revitalization programme. The culmination of these two projects is expected to lead to growth in the capital assets base of the Organization and add to its intangible assets, as part of the strategy that was explained in detail previously.

I.4.4 Cash flows – Analysis of inflows and outflows, and important trends

95. The Organization operates 28 bank accounts with 17 different banks across 11 countries worldwide. Chart 29 below shows year-end total amounts of cash and cash equivalents, plus investments held by the Organization in 11 currencies, in its various bank accounts worldwide. The Organization operates an electronic Treasury Management System for cash and liquidity management of the different currencies, enabling automatic, online reconciliations of bank balances and cash book balances every day, as well as planning and cash forecasting capabilities, allowing cash requirements to be met by making the necessary transfers of funds.

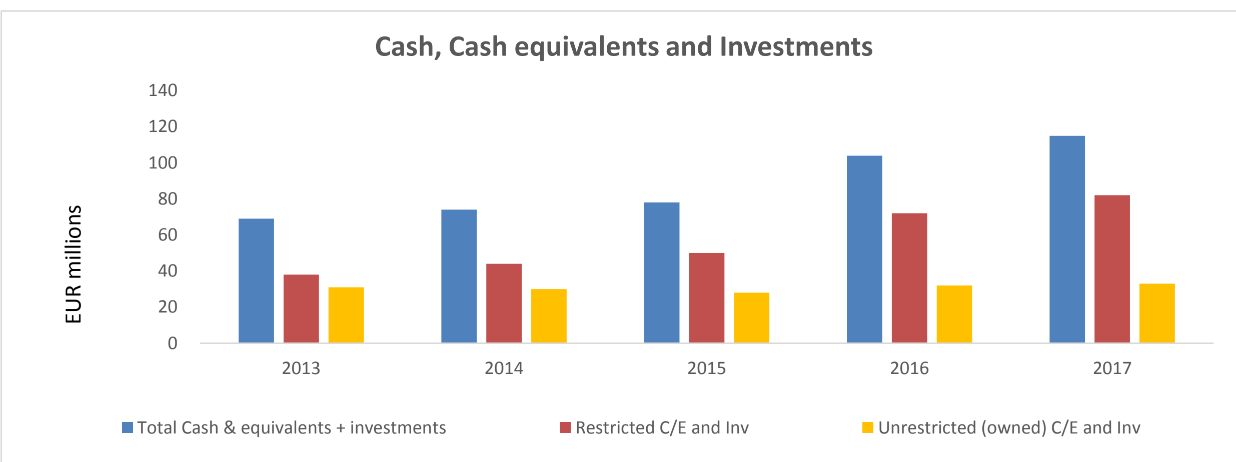

Chart 29: Cash and cash equivalents and investments

96. As is evident from the above chart, cash and cash equivalents has continued to increase over the past 5 years, due mainly to cash inflows from Trust Funds and Special Accounts and from the growing DC Pension Scheme. This is reflected in the growing levels of restricted cash, whilst unrestricted or owned cash of the Organization appears to be quite stable (between EUR 28 million and EUR 33 million over the period), which correlates approximately with the total level of the accumulated reserves of the Organization.

97. Table 2 below demonstrates the working of the financial investments mechanism in relation to observed cash inflows from operations, over the past five years. As may be observed, during periods of robust cash inflows from operations, and depending on suitable investment opportunities being available (required rating above 'A' from at least two agencies, and capital guarantees provided for the investments), the Organization undertakes financial investments, which are encashed when cash inflows from operations turn weaker. However, due to the paucity of suitable investment opportunities in the current low-interest rate environment, the Organization presently holds its resources in bank accounts providing only low yields.

EUR millions	**2013**	**2014**	**2015**	**2016**	**2017**
Cash inflows from operations	14	9	8	29	14
Financial Investments undertaken (net)	6			1	
Financial investments encashed (net)		23	3		

Table 2: Cash inflows from operations and financial investments

I.5 OVERVIEW OF INTERPOL'S PRINCIPAL RISKS AND UNCERTAINTIES

98. Principal risks and uncertainties faced by INTERPOL may be summarized below.

I.5.1 Dependence on growth in member country contributions for core growth

99. The Organization belongs to its Members. It depends on their financial and operational support for its fundamental development and progress. As Chart 7 in the previous section shows, compound growth over the past five years in member country statutory contributions averaged only 2%. However, total top-line growth over the same period averaged higher, at around 7% on a compounded basis, primarily because of diversification of revenue streams to include external funding for projects, and a higher share of member countries' voluntary, non-monetary or in-kind contributions, principally through the provision of additional office premises, in 2015 for IGCI Singapore, as Chart 14 shows in the previous section.

100. The Organization's growth therefore remains highly dependent on member country support. The Organization must also target additional offerings, including to its base of capital assets in the form of assets and equipment, and bestowed buildings for establishing its global policing and law-enforcement operational bases. Greater member country support in the form of growing in-kind staff resources is of invaluable assistance in improving the Organization's ability to deliver on externally funded projects, particularly since in-kind staff resources have been falling from 2015, as shown in Chart 13.

101. Furthermore, any increase to the called-up but unpaid contributions is likely to restrict growth, as this constrains the Organization's ability to deliver its annual Programme of Activities. Hence, membership support to deliver impetus to the Organization's growth story is necessary, as is a commitment from the membership to fully fund promised annual contributions in each year.

102. At the same time, the Organization should also diversify its funding sources to mitigate funding risks and to build surpluses. Apart from consolidating the financial base of the Organization, these reserves, when built up over time, can be used for undertaking some resource-intensive programmes, such as I-Core and I-One that were mentioned in the previous section under the discussions on Net Assets. Table 1 in the preceding section highlighted the important role played by funding received from the INTERPOL Foundation in 2016 and 2017 in converting operating deficits during these years into reported surpluses, by virtue of which the General Reserve Fund at year-end 2017 has around EUR 8 m in excess of its regulatory requirement.

103. However, such diversification of funding sources may come with an added cost of governance, particularly since the influence of member countries via their financial support, with both monetary and in-kind contributions, starts to diminish against the increasing weight of external project partners, as demonstrated by Chart 4 in the preceding section. Recent amendments to the Financial Regulations protect against this risk by stipulating a limit of 50% of total operating revenue to be sourced from Trust Funds and Special Account for utilization in a year, whilst total annual donation from a single donor (other than the INTERPOL Foundation) cannot exceed 15% of total operating revenue in that year.

I.5.2 Dependence on external project partners for special activities.

104. The Organization deploys its assets, networks, specialized knowledge and its intelligence communities to carry out special activities in the field of policing and law enforcement with the sole objective of making the world a safer place. While this strategy is much appreciated by the Organization's external partners, as evidenced by the growth in project funding resources available to it, the Organization must also ensure that it is able to step up project implementation to a feasible rate for the future in order to meet the expectations of the external partners in this regard. This move has the additional benefit of improving the Organization's top-line growth as explained in point 1 above, and will also result in decreased liabilities on its balance sheet.

105. Furthermore, the Organization must select projects that develop its capital assets base and specialized knowledge assets (high-tech infrastructure for technical and operation support), so that it is able to attract future project funding for exploiting these specialized assets. As Chart 21 shows, the intangible assets base of the Organization needs to grow substantially in future years to support enhanced project implementation.

106. Consequently, external project partnerships for building intangible assets and capital assets – such as buildings and premises to house operations for policing and law-enforcement activities, specialized equipment and such – are just as necessary as project partnerships that aim to exploit these assets operationally through crime-fighting programmes.

I.5.3 Impediments to growth on Trust Funds and Special Accounts

107. Whilst faster growth in revenues is expected to be driven by externally sponsored projects in the near future, it is important that INTERPOL improves its internal administrative processes to eliminate bottlenecks in areas such as staff recruitment, whereby qualified staff are employed and inducted onto projects at much faster rates than in the recent past, in order for it to speed up project implementation to the increased rate demanded by its adopted strategy.

108. The Organization also faces constraints as regards the availability of qualified staff in some of the more difficult areas of its policing operations, such as cybercrime or terrorism, where experts are difficult to find and/or the few existing experts are in demand elsewhere. These staff shortages expose the Organization's strategy implementation to considerable risks, which are not easily mitigated.

109. A growing staff base is likely to encounter constraints for office space and this too is an important risk that the Organization has to mitigate to ensure top-line growth. This aspect was discussed earlier in the context of building and office premises in the preceding section, where the need for facilities expansion was highlighted (see Chart 25 above).

110. Last but not least, the consequences of stepping up project implementation to deliver projects faster and in greater number, has important ramifications for other auxiliary/support services such as procurement and contracts management, travel management, security services, financial management, and IT and communications management. Moreover, systems and internal controls that provide regulations, documented procedures and predictable processes to securely channel project execution along well-ordered pathways are important risk-mitigation mechanisms, but such monitoring and control activities can be pursued only through specialized focus emanating from the Regular Budget.

I.5.4 Data quality in the databases

111. The Organization depends on its member countries for the input quality of notices that are uploaded into its databases. However, it is exposed to considerable risks for any shortcomings in the quality of such data. While the Organization continues to progress through a series of improvements in this respect, this is a significant risk for the Organization's survival and growth, as was shown by the red notice settlement case in 2015 that cost a net amount of EUR 1.5 million.

112. The Organization now regularly assesses the risks of litigation cases and implements adequate mitigating measures and precautions. It has recently amended its Headquarters Agreement with host country France. Additional safeguards have also been put in place, including: (1) better review of red notices and wanted person diffusions; (2) stricter criteria for publication of extracts on INTERPOL's public website; and, (3) separation between notices and diffusions in the notice form. It is to be noted that there have been no red notice litigation actions since 2015.

I.5.5 Regional expansion strategy

113. As Chart 9 in the previous section showed, collection rates for member country contributions to Regional Budgets are lower than that for General Budgets, and this could hamper the regional growth strategy of the Organization. Member country support for the regionalization strategy should be via financial contributions paid unfailingly in full.

114. Additionally, and as shown in Chart 10 in the preceding section, partial utilization of statutory contributions called up to finance RB activities is a situation needing improvement, as unused funds are added to the RB Reserve Fund at year-end. Given the adequate level of reserves for individual RBs, strategies are required for improved utilization of these reserve funds, in combination with contributions called up. The regional growth strategy may also be given a push with a higher budget allocation supported by higher contributions called up from members of individual RBs, for more activities to be undertaken via the annual Programme of Activities for the region.

I.5.6 Capital Expenditure Budget implementation

115. Continued under-achievement in the implementation of the Organization's annual Capital Budget programme is likely to be a risk, with long-term consequences such as the dwindling capital assets base of the Organization. This could affect its survival and competitiveness over the long term. Given that its resources in the Capital Investment Fund are adequate, at above EUR 9 million, the Organization should address this risk by steadily growing its capital base, both by the use of its owned resources as well as contributions from external partners, as covered previously in point 2.

I.5.7 Financial risks relating to currencies, interest rates, credit and liquidity

116. These are important risks that the Organization faces, namely return on financial investments may continue downwards over the years; exchange rate losses may lower the holding values of currencies, among other uncertainties. The Organization has developed a few mitigation strategies for these financial risks that are described below.

I.5.7.1 Currency risk

117. In order to minimize currency risk, the Organization has in place a treasury policy to:

1. optimize the numbers of the various currencies employed and the exchange transactions for conversion from one to the other;
2. manage foreign currencies according to operational needs, under the guidance of its Investment Committee;
3. make remittances in EUR wherever possible instead of in USD, to IGCI and the various Regional Bureaus and Liaison Offices for conversion into local currency for use at these locations;
4. increase frequency of remittances to the IGCI and the RBs and LOs so as to reduce the level of local currency holdings.

I.5.7.2 Interest rate risk

118. The Organization's investments of in short-term maturity instruments with its banks or in asset management schemes are subject to fluctuating returns, on account of market-driven interest rates. This may have a bearing on the level of the expenditure budget that is supported by the Organization.

119. Investments to earn financial interest income are made by the Organization subject to "security, liquidity and profitability" criteria, ranked in that order, as specified by its Financial Regulations.

I.5.7.3 Credit risk

120. The Organization is exposed to counterparty credit risk from accounts receivable, including statutory member country dues and from its transactions with banks and asset management companies for cash, cash equivalents and investments. This risk is managed by:

1. holding bank balances or investments in well-recognized banking institutions rated "A" (Standard & Poor's) or higher;
2. investing only in AAA-rated (Standard & Poor's) money-market funds for short-term maturities;
3. taking provisions for potential non-payment and/or holding adequate reserves in its General Reserve Fund against the non-collection of member-country dues;
4. managing commitments on Trust Fund and Special Accounts to ensure reimbursement.

121. The Financial Regulations of the Organization specify conditions for choosing among various financial institutions and banks.

I.5.7.4 Liquidity risk

122. The Organization manages its current liquidity by continually monitoring its receivables position, its available funds and proposed or on-going expenditure commitments. Resource allocations for activities are made against available or committed and due funds only, generally before the start of the activity.

123. The Organization is subject to liquidity risk due to the possible non-timely conversion of its receivables into liquid funds that can be applied to maturing commitments. Safeguards against this risk are specified in the Financial Regulations requiring the maintenance of a certain level of the General Reserve Fund. The Financial Regulations also specify that member countries pay their contribution dues to the Organization each year before the end of April.

124. In respect of its financial investments, liquidity risk arises on account of adverse market conditions that could prevent an orderly exit or cause a loss on exit from investments. This risk is mitigated for the Organization by diversifying the types of its investments.

125. The Organization also matches the liquidity profiles of its investments with the overall longer-term resources that are available, choosing to invest up to 75% only of the latter in longer-term investments, with the balance held on remunerated bank balances.

I.5.8 Pension Scheme of the Organization

126. The Organization is currently examining the process of converting its defined-contribution (DC) pension scheme into a defined-benefits (DB) pension scheme, and is also negotiating with France to facilitate the terms for operating such a DB pension scheme for all of its contracted staff.

127. Pending such a conversion, the return on invested funds that has been running low for many of the past years, as shown in Chart 27 in the previous section, may run even lower and for a much longer period. The risk here is that on conversion into a DB scheme, scheme capital may be inadequate to meet pension liabilities for the staff covered, which may then either require additional capital injections from the Organization's membership, and/or reductions to the pay-outs to employees as their pension benefits, in a manner as to ensure the viability of the scheme.

128. However, the danger is that the scheme would then lose its appeal to both employees and employer alike. In order to mitigate this risk, the Organization is examining options to make scheme investments on a long-term basis that cover actuarial liabilities that are likely to accrue on conversion of the DC scheme into a DB scheme.

I.6 OVERVIEW OF INTERPOL'S INTERNAL CONTROLS ENVIRONMENT AND RISK MANAGEMENT STRATEGIES

I.6.1 Internal Control System

129. The objective of INTERPOL's Internal Control System is to provide reasonable assurance regarding the reliability of its financial reporting, the preparation of financial statements, and the prevention, detection and reporting of fraud. The system of internal control includes policies and procedures at both organizational and transactional levels. The Secretary General is responsible for establishing and maintaining adequate internal financial controls.

130. The system of internal control at the organizational level consists of:

- the internal audit function
- policies and procedures setting the internal financial control environment
- the arrangement specifying the maintenance of records, including systems and software (SAP)
- specification of the respective authorization levels.

131. The system of controls at the transactional level aims to provide reasonable assurance:

- that the Organization complies with the policies, procedures and Financial Regulations for all receipts and expenditures;
- that in relation to operations and the safeguarding of assets, such controls exist for the prevention and detection of unauthorized acquisition, use or disposition of the assets of the Organization;
- that customary reliability may be placed on its financial reporting.

I.6.2 Enterprise Risk Management Programme

132. Since 2015, the Organization has applied an Enterprise Risk Management (ERM) programme. Based on ISO 31000 and relying on definitions supplied by the ISO Guide 73, with additional elements from the COSO Framework, the ERM programme model focuses on internal controls and financial risks, and has the ultimate objective of providing reasonable assurance regarding the achievement of Organizational objectives.

133. The ERM programme includes:

- The identification of risks classified according to consequence, impact and probability of occurrence;
- The specifications of risk management roles and responsibilities for building up an integrated enterprise-wide risk management framework, to strengthen risk assessments and risk treatment plans to formulate risk responses and implement action plans
- Risk monitoring, risk communications and risk review actions to ensure that the ERM mechanism is up to date and is managed with reasonably good continuing awareness of the risk situation;
- The "Policy for Enterprise Risk Management at INTERPOL" handbook, setting out the reference framework, definitions, processes, roles and responsibilities.

I.6.3 Follow up on audit recommendations

134. Internal and external audits contribute to improving the management and effectiveness of operations and controls. The implementation, in an effective and timely manner of accepted audit recommendations, is led by the Organization's Senior Managers.

135. The Internal Audit function of the Organization performs a periodic audit risk assessment to determine audit priorities and audit subjects. The Internal Audit unit prepares the audit risk assessment based on an objective risk evaluation supported and maintained by dialogue with management and staff. Internal Audit reports on recommended actions for improvement, and monitors the implementation of recommendations made in its audit reports. It renders assistance to the Organization through internal consultancy and a programme of quality control and development.

136. The Organization's External Auditors make a number of recommendations to improve the General Secretariat's compliance, management and processes. These recommendations cover different domains, ranging from recommendations on financial rules and regulations to cross-departmental management issues. Management seeks to improve its operations and controls by implementing such recommendations. Management also provides detailed updates on the implementation status of each outstanding audit recommendation and actions to the Executive Committee in formal reports.

137. In their annual audit reports in the five financial years since 2012, the External Auditors have made a total of 64 recommendations for improved management. Including the most recent audited financial year (2016), the Organization considers it has implemented 39 of the External Auditors' recommendations (61%). Of the remaining 25 recommendations, one is close to complete implementation, five have been rejected as being unfeasible or over-costly for the benefit that they would bring, and the remainder (19) are in progress.

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INTERNATIONAL CRIMINAL POLICE ORGANIZATION– INTERPOL

II. FINANCIAL STATEMENTS 2017

INTERPOL

30 April 2018

II.1. REPORT OF MANAGEMENT

The International Criminal Police Organization – INTERPOL management is responsible for producing the financial statements, pursuant to Financial Regulation 6.3. INTERPOL has adopted International Public Sector Accounting Standards (IPSAS) as its accounting reference standard. These financial statements have been prepared in accordance with IPSAS and the INTERPOL Financial Regulations, and Management considers that it has been compliant with both throughout the year. These financial statements include certain amounts that are based on Management's best estimates.

The Secretary General is responsible for establishing and maintaining adequate internal financial controls. The Organization's system of internal financial control is designed to provide reasonable assurance regarding the reliability of financial reporting, including in the preparation of these financial statements and the accounting procedures surrounding their completion, and the prevention, detection and reporting of fraud. The system of internal control includes policies and procedures at both the Organizational level and transactional level.

Organizational level controls include, in addition to an internal audit function, the policies and procedures that set the internal financial control environment and provide for maintenance of records and the setting of respective authorization levels. Management is responsible for establishing and maintaining transactional level controls which provide reasonable assurance that the Organization complies with the policies, procedures and Financial Regulations for all receipts and expenditures and for the prevention and detection of unauthorized acquisition, use or disposition of the Organization's assets.

Management has reasonable assurance that its system of internal financial control has been operating effectively during the year and that there are no material misstatement or omissions. Management establishes controls to investigate reported incidents of fraud. No reported incidents were substantiated during the year. Management therefore considers that these financial statements present a true and fair view of the Organization's financial position as at 31 December 2017 and the results of financial operations and cash flows for the year at that date.

In addition, Senior Management makes a declaration on any of their or their related parties' outside interests that may be conflictual or prejudicial to the Organization and that could call into question their independence in exercising their INTERPOL functions. There have been no declarations that have a material impact on these financial statements nor in the commitments that the Organization has made to third parties.

The financial statements were approved by management on 30 April 2018. The statements are audited by the Auditor General of Canada, who was appointed by the General Assembly for a three-year term beginning in November 2016.

Jürgen Stock
Secretary General

Laurent Grosse-Kozłowski
Executive Director, Resource Management

II.2. INDEPENDENT AUDITOR'S REPORT

Office of the Auditor General of Canada
Bureau du vérificateur général du Canada

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INDEPENDENT AUDITOR'S REPORT

To the General Assembly of the International Criminal Police Organization–INTERPOL

Report on the Audit of the Financial Statements

Opinion

I have audited the financial statements of the International Criminal Police Organization (ICPO)–INTERPOL (the Organization), which comprise the statement of financial position as at 31 December 2017, and the statement of financial performance, statement of changes in net assets and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Public Sector Accounting Standards (IPSASs).

Basis for Opinion

I conducted my audit in accordance with International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Organization in accordance with the ethical requirements that are relevant to my audit of the financial statements in Canada, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IPSASs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Organization's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Organization or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Organization's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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As part of an audit in accordance with ISAs, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Organization's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Organization to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Report on Other Legal and Regulatory Requirements

As required by the Financial Regulations of the Organization, I report that, in my opinion, the accounting principles in International Public Sector Accounting Standards have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Organization that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with the Organization's Financial Regulations.

In accordance with Chapter 7, Section 2, Regulation 7.7 of the Financial Regulations and Appendix 2 to these Financial Regulations, I have also issued a detailed report on my audit of ICPO–INTERPOL to the General Assembly.

Michael Ferguson, CPA, CA
FCPA, FCA (New Brunswick)
Auditor General of Canada

Ottawa, Canada
30 April 2018

II.3. FINANCIAL STATEMENTS

II.3.1 STATEMENT OF FINANCIAL POSITION
As at 31 December 2017

000s euros	Notes	2017	2016
ASSETS			
Current assets			
Cash and cash equivalents	**7**	111,131	100,395
Statutory contributions receivable (net)	**9**	814	3,057
Accounts receivable	**10**	7,526	7,827
Prepaid expenses		2,045	1,799
Inventories		476	534
Total current assets		**121,992**	**113,612**
Non-current assets			
Investments	**8**	4,031	4,031
Statutory contributions receivable (net)	**9**	250	252
Intangible assets	**11**	1,653	1,211
Plant, property and equipment	**12**	15,113	16,637
Total non-current assets		**21,047**	**22,131**
TOTAL ASSETS		**143,039**	**135,743**
LIABILITIES			
Current liabilities			
Accounts payable and accrued charges	**13**	7,102	6,920
Contributions received in advance	**14**	3,286	8,835
Trust Fund and Special Accounts	**15**	56,895	49,742
Employee future benefits	**16**	8,276	8,109
Total current liabilities		**75,559**	**73,606**
Non-current liabilities			
Employee future benefits	**16**	22,311	19,060
Total non-current liabilities		**22,311**	**19,060**
TOTAL LIABILITIES		**97,870**	**92,666**
NET ASSETS			
Capital financing reserve	**18**	16,766	17,848
Accumulated reserve funds	**19**	28,403	25,229
TOTAL NET ASSETS		**45,169**	**43,077**

The accompanying notes form an integral part of these financial statements.

II.3.2 STATEMENT OF FINANCIAL PERFORMANCE
For the financial year ended on 31 December 2017

000s euros	Notes	Revised Combined Budget 2017	Actual 2017	Actual 2016
Operating revenue	**27**			
Statutory contributions		54,368	54,368	52,783
Regional Bureau financing		1,267	1,267	1,230
In-kind contributions		34,311	30,977	32,597
Voluntary contributions		3,576	3,551	3,551
Reimbursements and recoveries		45,892	33,510	21,976
Financial income		600	673	631
Other income		1,516	768	653
Exchange rate gains/(losses) net			(786)	307
Total operating revenue		**141,530**	**124,328**	**113,728**
Operating expenses	**28**			
Pay costs		62,539	51,740	49,941
In-kind pay costs		24,341	19,630	20,508
Other staff costs		1,447	2,135	1,566
Premises running costs		3,259	3,255	2,992
In-kind premises running costs		9,970	11,347	12,089
Maintenance		3,820	2,791	2,524
Missions and meetings		20,467	18,487	12,539
Office expenses		3,394	2,368	2,712
Telecommunication costs		1,411	1,176	1,052
Third party and other costs		5,821	4,759	2,697
Depreciation and amortization		4,761	4,548	5,088
Total operating expenses		**(141,230)**	**(122,236)**	**(113,708)**
Surplus for the year		**300**	**2,092**	**20**

The accompanying notes form an integral part of these financial statements.

II.3.3 STATEMENT OF CHANGES IN NET ASSETS
For the financial year ended on 31 December 2017

000s euros	*Capital Financing Reserve*	*Accumulated Reserve Funds*	**Breakdown of Accumulated Reserve Funds**				
			General Reserve Fund	*Permanent Fund for Crisis Relief*	*Special Allocations Fund*	*Capital Investment Fund*	*RB Reserve Fund*
Notes	18	19	20	21	22	23	24
Balance at 31 December 2015	**19,760**	**23,297**	**12,574**	**855**	**1,034**	**7,434**	**1,400**
Surplus (deficit) for the year	-	20	170	-	(251)	-	101
Items not in the Statement of Financial Performance							
- Capital expenditure	3,178	(3,178)	-	-	-	(3,178)	-
- Depreciation and amortization	(5,088)	5,088	-	-	-	5,088	-
- Disposals	(2)	2	-	-	-	2	-
Transfers	-	-	1,000	-	-	(1,000)	-
Balance at 31 December 2016	**17,848**	**25,229**	**13,744**	**855**	**783**	**8,346**	**1,501**
Surplus (deficit) for the year	-	2,092	2,378	-	-	-	(286)
Items not in the Statement of Financial Performance							
- Capital expenditure	3,509	(3,509)	-	-	-	(3,509)	-
- Depreciation and amortization	(4,548)	4,548	-	-	-	4,548	-
- Disposals	(43)	43	-	-	-	43	-
Transfers	-	-	783	-	(783)	-	-
Balance at 31 December 2017	**16,766**	**28,403**	**16,905**	**855**	**-**	**9,428**	**1,215**

The accompanying notes form an integral part of these financial statements

II.3.4 STATEMENT OF CASH FLOWS
For the financial year ended on 31 December 2017

000s euros	**Notes**	**2017**	**2016**
Cash flows from operating activities			
Surplus for the financial year		2,092	20
Adjustments for non-cash movements:			
Depreciation and amortization	**11, 12**	4,548	5,088
Effect of unrealized (gains) losses on foreign currency		281	(317)
Loss on disposal of assets	**11, 12**	43	
Changes in assets			
Decrease in statutory contributions receivables (net)	**9**	2,245	1,489
(Increase) Decrease in accounts receivables	**10**	301	(327)
(Increase) in prepaid expenses		(246)	(256)
Decrease in inventories		58	29
Changes in liabilities			
Increase (decrease) in accounts payable and accrued charges	**13**	182	(35)
Increase (decrease) in contributions received in advance	**14**	(5,549)	2,121
Increase in Trust Fund and Special Accounts	**15**	7,153	20,454
Increase in employee future benefits	**16**	3,418	1,028
Net cash flows from operating activities		**14,526**	**29,294**
Cash flows from investing activities			
Purchases of plant, property and equipment	**12**	(2,391)	(2,392)
Purchases of intangible assets	**11**	(1,118)	(784)
Purchases of investments	**8**	-	(4,000)
Proceeds from sale of investments	**8**	-	2,846
Net cash flows from investing activities		**(3,509)**	**(4,330)**
Effect of foreign currency exchange rates in cash and cash equivalents		(281)	317
Net increase in cash and cash equivalents		**10,736**	**25,281**
Cash and cash equivalents at the beginning of period	**7**	100,395	75,114
Cash and cash equivalents at the end of period	**7**	**111,131**	**100,395**

EUR 792,000 of interest received is included in the net cash flows from operating activities (2016: EUR 748,000).

The accompanying notes form an integral part of these financial statements.

II.3.5 NOTES TO THE FINANCIAL STATEMENTS

Note 1: General information

The International Criminal Police Organization – INTERPOL (hereinafter "the Organization") was founded in 1923 to enhance police cooperation around the world. The Organization currently has 192 member countries.

The aims of the Organization are to:

- Ensure and promote the widest possible mutual assistance between all criminal police authorities within the limits of the laws existing in the different countries and in the spirit of the "Universal Declaration of Human Rights";
- Establish and develop all institutions likely to contribute effectively to the prevention and suppression of ordinary law crimes.

The Organization may also enjoy certain privileges and immunities in the countries in which it operates, notably that of being exempt from paying most forms of taxation.

The vision of the Organization is "Connecting Police for a Safer World"; its mission is "preventing and fighting crime through enhanced cooperation and innovation on police and security matters".

The Organization carries out its mission by focusing on its five strategic goals:

1. Serve as the worldwide information hub for law enforcement cooperation;
2. Deliver state-of-the-art policing capabilities that support member countries to fight and prevent transnational crimes;
3. Lead globally innovative approaches to policing;
4. Maximize INTERPOL's role within the global security architecture;
5. Consolidate resources and governance structures for enhanced operational performance.

The Organization is governed by its Members. The Members elect representatives from each region to sit on its Executive Committee (EC); they elect the Secretary General, responsible for operational management, for a term of five years; they approve its governing texts, the Constitution and General Regulations. The Organization's Financial Regulations are an appendix to its General Regulations. The current Secretary General was elected in November 2014 for a term of five years.

The Organization has its General Secretariat headquarters (IPSG) in Lyon, France, and the INTERPOL Global Centre for Innovation (IGCI) in Singapore. It has representative liaison offices (LOs) in Brussels, Belgium; Bangkok, Thailand; Addis Ababa, Ethiopia; and New York, United States.

The Organization has Regional Bureaus (RBs) in Abidjan, Cote d'Ivoire; Buenos Aires, Argentina; Harare, Zimbabwe; Nairobi, Kenya; San Salvador, El Salvador; Yaoundé, Cameroon. It has legal agreements with each of these countries and operates in each country in accordance with these agreements.

In addition, each member country has a representative office, known as the INTERPOL National Central Bureau (NCB), through which the Organization may also operate.

Note 2: Management of the activities of the Organization and control

The Organization organizes and manages its activities through its Strategic Framework and the General Programme of Activities. The General Programme of Activities, including the Combined Budget, is the annual plan of the Organization for the following financial period. It is approved by the members at the annual General Assembly (GA). See Note 25 for the Combined Budget that is approved by the GA. Further devolutions of this approved budget may be carried out at an operational level, resulting in a Revised Combined Budget. Explanations of the Organization's various budgets and of its budgetary processes are described in Note 4 below.

The approval of the Combined Budget empowers the Secretary General to:

- Commit and authorize expenditures and make all payments borne by the Organization for approved activity up to approval limits;
- Receive income entered in the budget, together with other resources accruing to the Organization up to approval limits.

The Secretary General is responsible for delivery against the General Programme of Activities and to ensure that controls are established to monitor delivery.

Note 3: Basis of preparation of the Financial Statements

These financial statements have been prepared in accordance with International Public Sector Accounting Standards (IPSAS) issued by the International Public Sector Accounting Standards Board (IPSASB), and with the Organization's Financial Regulations. All transactions and operations are to comply with the Organization's governing texts: its Constitution, General Regulations, Financial Regulations and Financial and Staff Directives.

Management has expressed confidence in the use of the going-concern basis:

1. At its 2016 session held in Bali, Indonesia, the INTERPOL GA approved the Strategic Framework for the period 2017-2020 and supported its implementation over the next four years;
2. The GA supported the INTERPOL 2020 initiative as an agenda for global reform of the Organization and endorsed the consolidated recommendations;
3. The Combined Budget for 2018 was approved by member countries at the 86th General Assembly session in Beijing, China, and several member countries have already made their contributions to the 2018 Budget;
4. A number of Trust Fund and Special Account projects, including those supported by the INTERPOL Foundation, run to 2020 and beyond.

The financial statements have been prepared on an accrual basis.
The functional and presentation currency of the Organization is the euro. Unless otherwise stated, information is presented to the nearest one thousand euros (EUR 000s).

Note 4: Budgets and budgetary processes

The Organization's Combined Budget consists of the Regular Budget and Specific Budgets. The latter are composed of Trust Funds and Special Accounts, and an adjustment for transfers between budgets, known as a Combination Adjustment, is made to ensure that budgetary transfers are not recorded twice.

The Regular Budget consists of the General Budget and Regional Bureau (RB) Budgets. The General Budget extends support to all of the Organization's activities, while RB Budgets are specific in supporting operational activities at each RB. However, Pay Costs and Capital Expenditures at the RBs are supported out of the General Budget, due to the strategic nature of these costs. The General Reserve Fund (GRF) and the Capital Investment Fund (CIF) are linked to the General Budget, while the RB Reserve Fund is linked to RB Budgets. Details are in Note 19 - Accumulated Reserve Funds*,* Note 20 - General Reserve Fund, and Note 24 - RB Reserve Fund.

Trust Fund and Special Accounts finance special activities of the Organization on the basis of agreements with donor countries and organizations from both the public and private sectors. The execution of Trust Fund and Special Accounts does not necessarily follow the Organization's annual Regular Budget cycle. Extensions and amendments to these Trust Fund and Special Account budgets are made with donor approval and these are ratified by the EC as required according to the Financial Regulations.

GA-approved budgets for a year may subsequently be reallocated in recognition of operational necessities which are then approved by the EC. The EC also approves additions (under the Financial Regulations), extensions and amendments to the budgets of Trust Fund and Special Accounts that have been made with donor approval. The latter are also treated as reallocations of GA-approved budgets and are shown in Note 25 - Combined Budget. Budget comparisons in the financial statements are made against the EC-approved revisions.

Note 5: Significant accounting policies

The principal accounting policies adopted by the Organization are set out below:

Revenue recognition

Statutory contributions are recognized as annual income on the Regular Budget of the Organization for each financial year on the basis of GA approval for that year's budget. Member country statutory contributions are set in accordance with an agreed scale of assessed contributions that is approved in advance by the GA. The current scale is valid for the period from 2015 to 2018. All Members of the Organization are obliged to contribute annual contributions according to the approved scale.

Regional Bureau financing consists of statutory contributions received by the Organization to support RB operations. A total of 68 member countries support the Organization's six RBs. The contributions are recognized as revenue in the financial year that they are due on the basis of the GA approval for that year's operating budget of the individual RBs.

In-kind contributions are non-cash, voluntary contributions from member countries of certain services, such as seconded officials from their national law enforcement agencies and the rent-free use of buildings, equipment including software and other facilities, on the basis of a defined contract between the Organization and the member country or organization that also defines the permitted use of the service. The value of these services is estimated on a fair value basis and an equivalent expense is also recognized in the financial statements.

Voluntary contributions are donations received with no specific or defined purpose and are recognized in the year of their receipt. Voluntary contributions include amounts without restriction received from the INTERPOL Foundation for a Safer World ("INTERPOL Foundation").
Reimbursements and recoveries include:

- Amounts reimbursed for operating expenses under a specific agreement. These are accounted for when the right to receive them is established including on Trust Fund and Special Accounts;
- Revenues received by the Organization from conferences such as the GA for the sale of exhibitor booths. These are accounted for when the right to the income is established.

The amounts received under Trust Fund and Special Accounts are within specific agreements with external donors for the implementation of special project activities by the Organization. These received amounts are initially accounted as financial liabilities of the Organization and are subsequently recognized as income to the extent of direct or accrued expenditure on the defined project activities.

Trust Fund and Special Accounts share Regular Budget resources and infrastructure and also benefit by having access to law enforcement experts. For this reason, overhead recoveries, expert fees and charges for other services such as office rentals, are invoiced to the Trust Fund and Special Accounts from the Regular Budget for the use of the Organizational facilities and services. These charges are also accounted within this category of Reimbursements and Recoveries and result in a "combination adjustment" (i.e. to avoid duplication) being made between budgets for these services. All such costs on Trust Fund and Special Accounts are agreed in advance with the sponsor, either in a specific contract or in the general terms and conditions of operation of a Trust Fund.

Financial income is accounted for on an accrual basis as earned by the various amounts in the Organization's bank accounts and other investments. Income is then allocated accordingly between Regular Budget funds and Trust Fund and Special Accounts funds.

Operating lease charges are expensed on a straight-line basis over the lease term. Lease agreements entered into are classified as operating leases unless they substantially transfer all of the risk and reward of ownership.

Foreign currencies: All statutory and voluntary contributions to the Organization's Regular Budget are payable in euros. Foreign currency transactions are recorded in euros at the exchange rates prevailing on the dates of the transactions for the settlement of invoices and for goods receipts, and at an average rate from the previous month for other accounting transactions. Assets and liabilities denominated in foreign currencies are translated into euros at the exchange rates prevailing on the date of the Statement of Financial Position.

Both realized and unrealized gains and losses resulting from the settlement and revaluation of foreign currency transactions are recognized in the Statement of Financial Performance.

Plant, Property and Equipment and Intangible Assets: These are recorded at cost and depreciated or amortized to recognize the consumption of economic benefits of the assets over their useful lives. Where the historic book value of an asset is greater than its estimated recoverable amount, the asset is written down to its recoverable amount.

Plant, Property and Equipment:

Buildings are depreciated on a straight-line basis over 40 years.

Fixtures and fittings: Furniture and office equipment are depreciated on a reducing balance basis at 40% of net asset value at the start of the year, over 7 years. Fittings and sports equipment are depreciated on a straight-line basis over 10 years.

Equipment and other assets: Computer hardware and telecommunications equipment is depreciated on a reducing balance basis at 50% of net asset value at the start of the year, over 4 years. Vehicles are depreciated on a reducing balance basis at 40% of net asset value at the start of the year, over 7 years.

Intangible assets: Computer software and licenses including the costs for external software development are amortized on a reducing balance basis at 50% of net asset value at the start of the year, over 4 years.

Work in progress: Includes assets under construction, or subject to installation and commissioning processes. Amounts shown may include part/full payments for assets whose beneficial ownership has passed over to the Organization. No depreciation or amortization is recorded until the asset is considered in service.

Heritage assets: From time to time, the Organization receives donations of the free-use of works of art from member countries or other institutions. Such assets are not recognized by the Organization in its financial statements, as it is not intended that they will be sold.

Inventories are valued at the lower of cost or net realizable value, using the average cost method.

Cash and cash equivalents and investments: The Organization holds cash on hand, has on demand bank deposits (together referred to as "cash") and makes investments (some of which are highly liquid and referred to as "cash equivalents") in a number of currencies for operational purposes, all of which are subject to its Treasury Management policy.

The amount of cash and cash equivalents held by the Organization includes sums that have specific uses and are considered as internally restricted. Included in internally restricted cash and cash equivalents are amounts set aside for the supplementary retirement scheme, the defined contribution pension scheme, and the Japanese specific account that is held for salaries and allowance paid to officials seconded from Japan. Trust Fund and Special Accounts are also considered internally restricted use amounts.

Cash equivalents are highly liquid investments with maturity less than three months from the date of acquisition, that are readily convertible to known amounts of cash and are subject to an insignificant risk in value. Term deposits with maturity greater than three months are also classified as cash equivalents if they respect the preceding criteria, are held to meet short-term cash needs and are not subject to a significant change in value as a result of an early withdrawal.

Investments not meeting the definition of cash equivalents are made by the Organization usually with the intention to hold them to maturity. They are carried at cost and the fair value is disclosed in the notes but not recognized in the Statement of Financial Performance. Financial interest receivable on investments is shown in accounts receivable.

Statutory contributions receivable and accounts receivable: Statutory contributions and accounts receivable are stated at their nominal amount and reduced by allowances for estimated irrecoverable amounts.

Statutory contributions are approved by the Members and are due by 30 April of each year.

Members that have not fulfilled their financial obligations towards the Organization for the current and previous financial years fall under the sanctions of Article 52 of the General Regulations of the Organization ("Article 52") and have their right to vote at GA sessions suspended, along with other penalties. Unless there are specific reasons not to do so for a particular country, the Organization makes an allowance for the total amounts due to the Organization from countries under Article 52. Though the Organization makes allowances for doubtful debts per its accounting policy, it however retains its rights for the receipt of the gross statutory contributions receivable.

The Organization may conclude specific agreements, including repayment terms and conditions, allowing the member country to honour their statutory contribution obligations. Member country statutory contributions covered under these long-term debt-rescheduling agreements may have both current and non-current portions.

Member country dues not falling under either category – Article 52 or debt-rescheduling agreements – are shown as residual items.

Employee future benefits: The Organization's contributions towards employee future benefits, including from Trust Fund and Special Accounts, are recorded as pay costs in the Statement of Financial Performance.

These employee future benefits are recorded as accrued liabilities on the Statement of Financial Position. Personnel have acquired these benefits according to their contractual employment rights at the Organization, and are comprised of both:

- Contributions from the Organization's Regular Budget or from Trust Fund and Special Accounts;
- Deduction from staff pay, as applicable.

Internal scheme for involuntary loss of employment (ISCILE): The Organization administers an internal scheme to compensate individuals facing involuntary loss of employment. The scheme is funded entirely by the Organization’s contributions. Payments are made on a declining basis for consecutive years of an individual not finding alternate employment, per rules specified in the staff manual.

Indemnity on retirement and supplementary retirement scheme: The Organization offers an indemnity on retirement and supplementary retirement benefits to its employees depending on seniority and service which are entirely funded by the Organization’s contributions. Estimates of the impact of the indemnity upon retirement are made at the statement of financial position date and recognized in the statement of financial performance.

Defined-contribution pension scheme: The Organization administers a defined-contribution pension scheme for all employees who choose to participate in it, for which the Organization contributes at an agreed level relative to an individual employee’s contribution. The pension scheme is not legally separated from the Organization. Currently the pension scheme is administered internally: both the assets and the liabilities of the pension scheme are shown within the Organization’s Statement of Financial Position and in Note 7 - *Cash and cash equivalents* under *Cash with internally restricted use,* and Note 16 - *Employee future benefits*. The financial assets under this pension scheme are held and managed by the Organization alongside its own financial assets.

The Organization is currently in discussion for the creation of a defined-benefit scheme with an administrative mechanism that will be governed separately from the Organization.

Financial risk management: The Organization’s financial risk management objective is to ensure that its budgets are achieved, the Organization’s progress continues as planned, within the framework of the priorities it sets for itself and the associated Programme of Activities that are agreed at the GA. The financial risk management policies are framed within the context of its Financial Regulations.

The Organization invests its own surplus funds as well as the funds held for the defined contribution pension and supplementary retirement schemes and the Trust Fund and Special Accounts. The Organization is exposed to a variety of financial risks associated with the use of financial instruments as follows:

a. *Currency Risk*

The Organization operates bank accounts in euros (EUR), United States dollars (USD), Kenyan shillings (KES), Thai baht (THB), Argentine pesos (ARS), Singapore dollars (SGD) and Central and West African francs (XAF - XOF). As a result of conversion of the foreign currency balances held in these accounts to euros at the balance sheet date, currency risk is incurred due to variation in the euro values of the converted balances.

In order to minimize currency risk, the Organization has in place a Treasury Policy to:

- optimize the numbers of the various currencies employed and the exchange transactions for conversion from one to the other;
- manage foreign currencies according to operational needs, under the guidance of its Investment Committee;
- make remittances in EUR wherever possible instead of in USD, to IGCI and the various RBs and LOs for conversion into local currency for use at these locations;
- increase frequency of remittances to the IGCI and the RBs and LOs so as to reduce the level of local currency holdings.

b. *Interest Rate Risk*

Investments of the Organization in short-term maturity instruments with its banks or in asset management schemes are subject to fluctuating returns, on account of market-driven interest rates. This may have a bearing on the level of the expenditure budget that is supported by the Organization.

Investments to earn financial interest income are made by the Organization subject to "Security, liquidity and profitability" criteria, ranked in that order, as specified by its Financial Regulations.

c. *Credit Risk*

The Organization is exposed to counterparty credit risk from accounts receivable including statutory member-country dues and from its transactions with banks and asset management companies for cash, cash equivalents and investments. This risk is managed by:

- holding bank balances or investments in well-recognized banking institutions rated "A" (Standard & Poor's) or higher;
- investing only in AAA-rated (Standard & Poor's) money-market funds for short-term maturities;
- taking provisions for potential non-payment and holding adequate reserves in its GRF against the non-collection of member-country dues;
- managing commitments on Trust Fund and Special Accounts to ensure reimbursement.

The Financial Regulations of the Organization specify conditions for choosing among various financial institutions and banks.

A fluctuation in the values of the financial assets of the Organization has a bearing on its net worth and affects its continuing progress towards achieving its objectives. The Organization does not require any collateral or security to support financial instruments and other receivables, due to the low level of the residual risk remaining after mitigation as above.

In respect of accounts receivable including statutory member-country dues, provisions have been made for amounts considered uncollectible or doubtful. In respect of Trust Fund and Special Accounts, counterparty financing risk is mitigated by having a signed agreement and ensuring the receipt, as far as possible, of adequate project funding in advance of the commitment of project funds.

d. *Liquidity Risk*

The Organization manages its current liquidity by continually monitoring its receivables position, its available funds and proposed or on-going expenditure commitments. Resource allocations for activities are made against available or committed and due funds only, generally before the start of the activity.

The Organization is subject to liquidity risk due to the possible non-timely conversion of its receivables into liquid funds that can be applied to maturing commitments. Safeguards against this risk are specified in the Financial Regulations requiring the maintenance of a certain level of the GRF. The Financial Regulations also specify that member countries pay their contribution dues to the Organization each year before the end of April.

In respect of its financial investments, liquidity risk arises on account of adverse market conditions that could prevent an orderly exit or cause a loss on exit from investments. This risk is mitigated for the Organization by diversifying the types of its investments.

The Organization also matches the liquidity profiles of its investments with the overall longer-term resources that are available, choosing to invest up to 75% only of the latter in longer-term investments, with the balance held on remunerated bank balances.

Accounting standards issued but not yet effective: In 2016, the International Public Sector Accounting Standards Board published IPSAS 39 – Employee Benefits. IPSAS 39 will replace IPSAS 25 – Employee Benefits, on 1 January 2018, with an earlier adoption encouraged. The Organization is currently analysing the impact of the new standard. However, no significant impact on the financial statements resulting from the adoption of this new standard is currently expected.

Note 6: Accounting judgments and estimates

In the application of the Organization's accounting policies management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities. While the estimates and underlying assumptions are reviewed on an ongoing basis, the effects of revisions to accounting estimates are recognized in the period in which the estimate is revised, if the estimate affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods.

Estimates include, but are not limited to: valuation of in-kind revenue and expenses for seconded officials and the free use of buildings and equipment; indemnity benefits on retirement; accrued charges; provision for financial risk on inventories and accounts receivable; contingent assets and liabilities; degree of impairment of fixed assets and their estimated useful lives..

In the course of preparing the financial statements, no significant judgments have been made in the process of applying the Organization's accounting policies.

Note 7: Cash and cash equivalents

The Organization holds cash and cash equivalents in a number of currencies for operational purposes. The Organization has no credit lines nor does it utilize any bank overdrafts.

000s euros	31 December	
	2017	**2016**
Cash	23,310	14,728
Cash equivalents	87,821	85,667
Total cash and cash equivalents	**111,131**	**100,395**

000s euros	31 December	
	2017	**2016**
Euros	107,027	92,701
Other currencies	4,104	7,694
Total cash and cash equivalents	**111,131**	**100,395**

Cash and cash equivalents with internally restricted use:

Included within the cash and cash equivalents are amounts that are held for specific purposes as below:

000s euros	**Notes**	31 December	
		2017	**2016**
Trust Fund and Special Accounts	**15**	56,895	49,742
Defined contribution pension scheme	**16**	20,525	17,927
Employee future benefits - supplementary retirement	**16**	4,251	3,913
Japanese special account	**14**	578	541
Total cash and cash equivalent with internally restricted use		**82,249**	**72,123**

A portion of cash and cash equivalents with internally restricted use will be used to cover defined contribution pension scheme and employee future benefits - supplementary retirement payments presented as non-current in Note 16 - Employee future benefits.

Note 8: Investments

Name and location of investment	Scheme	Currency (000)	31 December	
			2017	2016
Non-current				
HSBC (France)	DAT	EUR	31	31
Royal Bank of Canada (France)	EMTN	EUR	4,000	4,000
Total – Non-current			**4,031**	**4,031**
Total investments			**4,031**	**4,031**

Legend: DAT = Term Deposit linked to bank guarantee; EMTN: Euro Medium Term Note.

Note 9: Statutory contributions receivable (net)

000s euros	31 December	
	2017	2016
Current		
Member country dues under article 52	*3,161*	*3,518*
Less: allowance for doubtful debts	*(3,161)*	*(1,073)*
Net Member country dues under article 52	0	2,445
Member country dues under debt-rescheduling agreements	21	38
Other member country dues	793	574
Total – Current	**814**	**3,057**
Non-current		
Member country dues under debt-rescheduling agreements	250	252
Total – Non-current	**250**	**252**
Total statutory contributions receivable (net)	**1,064**	**3,309**

Note 10: Accounts receivable

000s euros	31 December	
	2017	2016
Staff loans	224	273
Receivable on Trust Fund and Special Accounts	4,803	5,178
Financial interest receivable	131	250
Other receivables	*1,324*	*1,104*
Provision for doubtful debts	*(134)*	*(115)*
Net other receivables	1,190	989
VAT recoverable	*1,194*	*1,153*
Provision for VAT recoverable	*(16)*	*(16)*
Net VAT recoverable	1,178	1,137
Total accounts receivable	**7,526**	**7,827**

Note 11: Intangible assets

Intangible Assets: These consist of software and licences.

000s euros	Balance at 31 December 2015	Additions / amortization	Disposals	Balance at 31 December 2016	Additions / amortization	Disposals	Balance at 31 December 2017
Cost							
Software	16,240	643	-	16,883	913	(78)	17,718
Work in process	-	141	-	141	205	-	346
Total cost	**16,240**	**784**	**-**	**17,024**	**1,118**	**(78)**	**18,064**
Accumulated amortization							
Software	(15,110)	(703)	-	(15,813)	(673)	75	(16,411)
Work in process	-	-	-	-	-	-	
Total accumulated amortization	**(15,110)**	**(703)**	-	**(15,813)**	**(673)**	**75**	**(16,411)**
Net book value							
Software	1,130	(60)	-	1,070	240	(3)	1,307
Work in process	-	141	-	141	205	-	346
Total net book value	**1,130**	**81**	-	**1,211**	**445**	**(3)**	**1,653**

Note 12: Plant, Property and Equipment

Buildings: The headquarters building in Lyon, France is owned by the Organization. The land on which the building is constructed is owned by the city of Lyon and is leased rent-free to the Organization for a period of 99 years from 1985. At the end of the lease, both the title of the building and the land will pass to the city of Lyon. No recognition of the rent-free use of the land on which the building is sited is made in the financial statements.

Fixtures and Fittings: Includes office equipment and sports equipment.

Equipment and other assets: Consist of computer hardware and telecommunications equipment including computers, printers, laptop computers, routers/switches and communications systems, as well as the Organization's vehicles.

000s euros	Balance at 31 December 2015	Additions / depreciation	Disposals	Balance at 31 December 2016	Additions / depreciation	Disposals	Balance at 31 December 2017
Cost							
Buildings	18,582	-	-	18,582	-	-	18,582
Fixtures and fittings	28,562	1,234	(124)	29,672	1,039	(427)	30,284
Equipment and other assets	14,041	1,158	(470)	14,729	1,418	(2,127)	14,020
Work in process	126	-	-	126	(66)	-	60
Total cost	**61,311**	**2,392**	**(594)**	**63,109**	**2,391**	**(2,554)**	**62,946**
Accumulated depreciation							
Buildings	(11,385)	(460)	-	(11,845)	(460)	-	(12,305)
Fixtures and fittings	(19,836)	(2,411)	124	(22,123)	(2,024)	417	(23,730)
Equipment and other assets	(11,460)	(1,514)	470	(12,504)	(1,391)	2,097	(11,798)
Work in process	-	-	-	-	-	-	-
Total accumulated depreciation	**(42,681)**	**(4,385)**	**594**	**(46,472)**	**(3,875)**	**2,514**	**(47,833)**
Net book value							
Buildings	7,197	(460)	-	6,737	(460)	-	6,279
Fixtures and fittings	8,726	(1,177)	-	7,549	(985)	(10)	6,554
Equipment and other assets	2,581	(356)	-	2,225	27	(30)	2,220
Work in process	126	-	-	126	(66)	-	60
Total net book value	**18,630**	**(1,993)**	-	**16,637**	**(1,484)**	**(40)**	**15,113**

Note 13: Accounts payable and accrued charges

000s euros	31 December	
	2017	2016
Creditors for goods and services	5,026	4,984
Social security and insurance payable	1,850	1,605
Other creditors	226	331
Total accounts payable and accrued charges	**7,102**	**6,920**

Note 14: Contributions received in advance

000s euros	31 December	
	2017	2016
Statutory contributions received in advance	2,672	8,248
Japanese special account	578	541
Other income received in advance	36	46
Total contributions received in advance	**3,286**	**8,835**

Note 15: Trust Fund and Special Accounts

000s euros	Trust Fund	Special Accounts	Total
Balance at 31 December 2015	**300**	**28,988**	**29,288**
Funds received during the year	7,837	35,163	43,000
Income recognized during the year	(665)	(21,881)	(22,546)
Balance at 31 December 2016	**7,472**	**42,270**	**49,742**
Funds received during the year	8,111	32,754	40,865
Income recognized during the year	(5,045)	(28,667)	(33,712)
Balance at 31 December 2017	**10,538**	**46,357**	**56,895**

Note 16: Employee future benefits

000s euros	31 December	
	2017	**2016**
Current		
ISCILE	716	813
Employee future benefits - indemnity on retirement	892	878
Employee future benefits - supplementary retirement	1,113	784
Employee leave not taken	3,089	2,793
Defined contribution pension scheme	2,466	2,841
Total - current	**8,276**	**8,109**
Non-current		
ISCILE	611	443
Employee future benefits - indemnity on retirement	503	402
Employee future benefits - supplementary retirement	3,138	3,129
Defined contribution pension scheme	18,059	15,086
Total – Non-current	**22,311**	**19,060**
Total employee future benefits	**30,587**	**27,169**

000s euros	**ISCILE**	**Indemnity on retirement**	**Supplementary retirement**	**Employee leave not taken**	**Defined contribution pension scheme**	**TOTAL**
Balance at 31 December 2015	**1,254**	**1,469**	**3,770**	**2,848**	**16,800**	**26,141**
Recognized in the statement of financial performance	469	(130)	863	221	2,298	3,721
Items not in the statement of financial performance						
- Staff contribution	-	-	-	-	1,504	1,504
- Financial interest income	-	-	67	-	218	285
- Settlement of liabilities	(467)	(59)	(787)	(276)	(2,893)	(4,482)
Balance at 31 December 2016	**1,256**	**1,280**	**3,913**	**2,793**	**17,927**	**27,169**
Recognized in the statement of financial performance	277	278	871	424	2,446	4,296
Items not in the statement of financial performance						
- Staff contribution	-	-	-	-	1,633	1,633
- Financial interest income	-	-	65	-	269	334
- Settlement of liabilities	(206)	(163)	(598)	(128)	(1,750)	(2,845)
Balance at 31 December 2017	**1,327**	**1,395**	**4,251**	**3,089**	**20,525**	**30,587**

Supplementary retirement and the defined-contribution pension scheme have a corresponding asset, a savings account, which has been designated as *Cash and cash equivalents with internally restricted use* in Note 7.

The defined-contribution pension scheme, offered to contracted officials of the Organization, had 358 members enrolled out of a total of 652 contracted officials (2016: 277 of 529).

Note 17: Financial instruments

Financial instruments employed by the Organization are as follows:

000s euros	31 December			
	2017		2016	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Cash and cash equivalents	111,131	111,131	100,395	100,395
Classified as loans and receivables				
Accounts receivable	7,526	7,526	7,827	7,827
Statutory contributions receivable	1,064	1,064	3,309	3,309
Classified as held to maturity				
Investments	4,031	4,111	4,031	4,159
Total financial assets	**123,752**	**123,832**	**115,562**	**115,690**
Financial liabilities				
Accounts payable and accrued charges	7,102	7,102	6,920	6,920
Trust Fund and Special Accounts	56,895	56,895	49,742	49,742
Total financial liabilities	**63,997**	**63,997**	**56,662**	**56,662**

The financial instruments of the Organization are recognized at their amortized cost. The fair value of investments is provided by banks or investment portfolio managers based on price models using observable market prices (level 2). For all other financial instruments, the carrying value is a reasonable approximation of their fair value.

Note 18: Capital financing reserve

The Capital financing reserve forms part of the Organization's equity and is an exact balance of the fixed assets owned by the Organization. Purchases of fixed assets add to the reserve, while disposals and sales of fixed assets, and depreciation, reduce it.

Note 19: Accumulated reserve funds

The Organization's funds are created by GA resolution, which determine the use and limits of each of the funds. Accumulated Reserve Funds constitute the reserves of the Organization, comprising the five funds covered in Notes 20 to 24. They are added to by surpluses and reduced by deficits of the Organization each year, according to the use of the budgets that are linked to them. Allocations of amounts in the funds represent the commitment of the Organization to a certain activity and withdrawals from these funds represent the support for such activity.

Note 20: General Reserve Fund (GRF)

The GRF is a statutory fund of the Organization, required under the Financial Regulations and created by GA Resolution AG/52/RES/7, and is the primary operating reserve of the Organization. General Budget surpluses and deficits add to or reduce from the level of this Fund. Transfers to and from the GRF are by GA resolutions. The Financial Regulations stipulate a statutory level on the GRF.

In 2017 the net operating result from the Regular Budget was a surplus of EUR 2,092,000 (2016: surplus of EUR 271,000) of which a surplus of EUR 2,378,000 (2016: surplus of EUR 170,000) is attributable to the GRF and a deficit of EUR 286,000 (2016: surplus of EUR 101,000) to the RB Reserve Fund. Additionally, EUR 783,000 was transferred from the Special Allocations Fund to the GRF according to the approved budget 2017.

STATUTORY LEVEL OF THE GRF

There are two stipulations in the Financial Regulations regarding the level of the GRF: that the reserve, cumulated with the Permanent fund for crisis relief, is sufficient to cover at least: (i) one sixth of the operating expenditure on the Organization's Regular Budget for the previous financial period, excluding expenditure to cover for depreciation allocations and expenditure valued on an in-kind basis; (ii) 117% of the net outstanding statutory contributions receivable from member countries covered under Article 52.

(i) Operating expenses: Regular Budget operating expenses net of depreciation and in-kind expenditure were EUR 57,741,000 in 2017, (2016: EUR 56,812,000), requiring EUR 9,624,000 (2016: EUR 9,469,000) to be set aside as a reserve requirement to cover operating expenses.

(ii) Dues under Article 52: At 31 December 2017, the *net* amount outstanding from member country statutory contributions from member countries subject to article 52 was EUR 0 (2016: EUR 2,445,000) as shown in Note 9 above. The reserve for dues under article 52 is EUR 0 (2016: EUR 2,861,000).

The total reserve requirement is therefore EUR 9,624,000 (2016: EUR 12,330,000). The current level of the GRF, cumulated with the permanent Fund for Crisis Relief, is EUR 17,760,000 (2016: EUR 14,599,000). The GRF balance, cumulated with the balance of the Permanent Fund for Crisis Relief is thus in compliance with the requirements of the Financial Regulations with a margin of EUR 8,136,000 or 46% of the current level of the two funds (2016: EUR 2 269,000 or 16%).

Note 21: Permanent Fund for Crisis Relief (PFCR)

The PFCR was created in 2005 by GA resolution AG-2005/RES-08, with an initial allocation transferred to it from the GRF. This fund exists to enable the Organization to respond immediately to crises or emergencies anywhere in the world. It is funded directly from voluntary member country contributions, in response to a specific call by the Organization, or by amounts transferred to it from other reserve funds, out of available surpluses in each financial year, following GA approval. The mandated level of the fund is 855,000 EUR.

In 2017, there were no expenditures against the PFCR, thereby maintaining the level against its mandated level.

Note 22: Special Allocations Fund (SAF)

The SAF was created by GA resolution AG/67/RES/5. The SAF was a supplemental reserve fund financed from voluntary contributions of member countries, over and above their statutory contributions. Amounts received from third-party donors with no defined project agreed beforehand, have been added to the SAF. There is no mandated level for the SAF. The Financial Regulations now allow voluntary contributions to be received into the Regular Budget and, as a consequence, the reserve has become redundant. There was a residual balance of EUR 783,000 in the SAF, which was transferred to the GRF according to the approved budget. In 2017 there was no impact on the Statement of Financial Performance of the SAF EUR 0,000 (2016: decrease of EUR 251,000).

Note 23: Capital Investment Fund (CIF)

The CIF is a statutory fund of the Organization, created by GA Resolution AG/52/RES/7. It is employed to finance acquisitions of fixed assets for the entire Organization, including for the RBs and LOs. The CIF is reduced when purchases of fixed assets are made and added to by the amount of annual depreciation computed on the fixed assets of the Organization. It can also be replenished via direct sequestration of statutory contributions, or through transfers from the GRF and from other specific reserves, following a GA resolution. There is no mandatory level of this fund. However, there needs to be adequate funds available for the capital expenditure budget of the Organization for the following year. There were no transfers to the GRF (2016: EUR 1,000,000)

The CIF increased by EUR 1,082,000 (2016: EUR 912,000) from EUR 8,346,000 on 31 December 2016 to EUR 9,428,000 on 31 December 2017.

Note 24: RB Reserve Fund

The RB Reserve Fund created by GA Resolution AG/63/RES/5. It is funded by member country statutory contributions from countries that are attached to each RB. It is reduced by operating expenditure (excluding pay costs that are funded by the General Budget) of each RB. Each RB is treated separately within the fund, although the overall level of the fund is the sum for all of the RBs. There is no stipulated level for this fund.

The net operating deficit for RB operations of EUR 286,000 in 2017 (2016: surplus of EUR 101,000) decreased the level of the RB Reserve Fund to EUR 1,215,000 (2016: increased to EUR 1,501,000).

Note 25: Combined budget

The revised combined budget is the approved budget for the Organization that contains re-allocations from the GA-approved combined budget, approved by the EC at its March 2017 session for the Regular Budget. Trust Fund and Special Accounts Budgets were increased throughout 2017 as additional projects were approved according to the Organization's Financial Regulations.

000s euros	**GA Approved Combined Budget 2017**				**Revisions**				**Revised Combined Budget 2017**			
	Total	**Regular Budget**	**Trust Fund and Special Accounts**	**Combination adjustment**	**Total**	**Regular Budget**	**Trust Fund and Special Accounts**	**Combination adjustment**	**Total**	**Regular Budget**	**Trust Fund and Special Accounts**	**Combination adjustment**
Operating revenue												
Statutory contributions	54,368	54,368	-	-	-	-	-	-	54,368	54,368	-	-
Regional Bureau financing	1,267	1,267	-	-	-	-	-	-	1,267	1,267	-	-
In-kind contributions	32,789	32,416	373	-	1,522	1,522	-	-	34,311	33,938	373	-
Voluntary contributions	3,576	3,576	-	-			-	-	3,576	3,576	-	-
Reimbursements and recoveries	23,663	3,107	22,269	(1,713)	22,229	44	23,232	(1,047)	45,892	3,151	45,501	(2,760)
Financial income	600	600	-	-	-	-	-	-	600	600	-	-
Other income	1,361	1,361	-	-	155	155	-	-	1,516	1,516	-	-
Exchange rate gains/(losses) net	-	-	-	-	-	-	-	-	-	-	-	-
Total operating revenue	**117,624**	**96,695**	**22,642**	**(1,713)**	**23,906**	**1,721**	**23,232**	**(1,047)**	**141,530**	**98,416**	**45,874**	**(2,760)**
Operating expenses												
Pay costs	53,528	42,755	10,773	-	9,011	200	8,811	-	62,539	42,955	19,584	-
In-kind pay costs	22,854	22,481	373	-	1,487	1,487	-	-	24,341	23,968	373	-
Other staff costs	1,320	1,258	62	-	127	136	(9)	-	1,447	1,394	53	-
Premises running costs	3,336	3,317	85	(66)	(77)	(79)	21	(19)	3,259	3,238	106	(85)
In-kind premises running costs	9,935	9,935	-	-	35	35	-	-	9,970	9,970	-	-
Maintenance	2,934	2,822	112	-	886	276	610	-	3,820	3,098	722	-
Missions and meetings	10,670	4,428	6,242	-	9,797	209	9,588	-	20,467	4,637	15,830	-
Office expenses	2,015	1,693	322	-	1,379	(59)	1,438	-	3,394	1,634	1,760	-
Telecommunication costs	1,614	1,551	63	-	(203)	(265)	62	-	1,411	1,286	125	-
Third party and other costs	4,507	1,094	4,610	(1,647)	1,764	81	2,711	(1,028)	5,821	1,175	7,321	(2,675)
Depreciation and amortization	4,761	4,761	-	-	-	-	-	-	4,761	4,761	-	-
Total operating expenses	**117,024**	**(96,095)**	**(22,642)**	**1,713**	**(24,206)**	**(2,021)**	**23,232**	**1,047**	**(141,230)**	**(98,116)**	**(45,874)**	**2,760**
Surplus / (Deficit) for the year	**600**	**600**	**-**	**-**	**(300)**	**(300)**	**-**	**-**	**300**	**300**	**-**	**-**

Note 26: Financial Performance on Regular and Specific Budgets for 2017

000s euros	TOTAL	Regular Budget	Specific budgets and adjustment	
			Trust Fund and Special Accounts	Combination adjustment
Operating revenue				
Statutory contributions	54,368	54,368	-	-
Regional Bureau financing	1,267	1,267	-	-
In-kind contributions	30,977	30,353	624	-
Voluntary contributions	3,551	3,551	-	-
Reimbursements and recoveries	33,510	4,539	33,089	(4,118)
Financial income	673	673	-	-
Other income	768	768	-	-
Exchange rate gains/(losses) net	(786)	(785)	(1)	-
Total operating revenue	**124,328**	**94,734**	**33,712**	**(4,118)**
Operating expenses				
Pay costs	51,740	38,741	13,398	(399)
In-kind pay costs	19,630	19,006	624	-
Other staff costs	2,135	1,459	713	(37)
Premises running costs	3,255	3,250	154	(149)
In-kind premises running costs	11,347	11,347	-	-
Maintenance	2,791	2,684	118	(11)
Missions and meetings	18,487	5,173	13,407	(93)
Office expenses	2,368	1,521	850	(3)
Telecommunication costs	1,176	1,133	108	(65)
Third Party and other costs	4,759	3,780	4,340	(3,361)
Depreciation and amortization	4,548	4,548	-	-
Total operating expenses	**122,236**	**92,642**	**33,712**	**(4,118)**
Surplus for the year	**2,092**	**2,092**	**-**	**-**

Note 27: Financial performance – operating revenue detail

000s euros	**Revised combined budget 2017**	**Actual 2017**	**Actual 2016**
Statutory contributions	**54,368**	**54,368**	**52,783**
Regional Bureau financing	**1,267**	**1,267**	**1,230**
In-kind pay costs		19,630	20,508
In-kind premises running costs		11,347	12,089
In-kind contributions	**34,311**	**30,977**	**32,597**
Member Country contributions		551	551
INTERPOL Foundation		3,000	3,000
Voluntary contributions	**3,576**	**3,551**	**3,551**
Trust Fund and Special Account income		33,089	21,827
Other reimbursements		421	149
Reimbursements and recoveries	**45,892**	**33,510**	**21,976**
Financial income	**600**	**673**	**631**
I-Checkit revenue		265	265
Other revenue		503	388
Other income	**1,516**	**768**	**653**
Exchange rate gains/(losses) net		**(786)**	**307**
Total operating revenue	**141,530**	**124,328**	**113,728**

The main variances are:

1. *Reimbursements and recoveries* - increased in 2017 versus 2016 primarily as a result of a higher implementation of Trust Fund and Special Accounts and hence income, albeit significantly below budget;

2. *In-kind contributions* – decreased in 2017 primarily due to the decrease in the number of officials during the year and the rates that have been used to compute the impact of social charges, and also below budget;

3. *Exchange rate loss* – the Organization holds balances in foreign currencies and is susceptible to exchange rate movements.

Note 28: Financial performance – operating expense detail

000s euros	**Revised combined budget 2017**	**Actual 2017**	**Actual 2016**
Salaries		32,374	30,363
Employer's social charge costs		11,505	11,017
Allowances		7,861	8,561
Pay costs	**62,539**	**51,740**	**49,941**
In-kind pay costs	**24,341**	**19,630**	**20,508**
Training		456	261
Employee welfare and recruitment costs		1,679	1,305
Other staff costs	**1,447**	**2,135**	**1,566**
Building rental		1,682	1,688
Utilities and other		1,573	1,304
Premises running costs	**3,259**	**3,255**	**2,992**
In-kind premises running costs	**9,970**	**11,347**	**12,089**
IT equipment		1,999	1,847
Building maintenance		792	677
Maintenance	**3,820**	**2,791**	**2,524**
Travel		15,057	10,033
Conferences and events		3,430	2,506
Missions and meetings	**20,467**	**18,487**	**12,539**
Consumables and supplies		1,079	1,080
Equipment hire and other		1,289	1,632
Office expenses	**3,394**	**2,368**	**2,712**
Network costs		671	599
Communication costs		505	453
Telecommunication costs	**1,411**	**1,176**	**1,052**
Consultancy expenses		2,022	1,239
Provisions for member country statutory contributions		2,088	901
Equipment donated		298	354
Other administration expenses		351	203
Third party and other costs	**5,821**	**4,759**	**2,697**
Depreciation and amortization	**4,761**	**4,548**	**5,088**
Total operating expenses	**141,230**	**122,236**	**113,708**

The main variances are:

1. *Pay costs* - increased primarily as a result of the higher number of staff that have been engaged to work on Trust Fund and Special Account projects;

2. *Missions and meetings* and *Third party and other costs* - increased primarily as a result of a significant increase in the implementation of Trust Fund and Special Accounts and hence operating expenses.

Note 29: Operating leases

Amounts payable after the balance sheet date for non-cancellable operating leases for leased office premises at the Cité Internationale in Lyon, for an apartment in Lyon, for leased offices in Brussels and Abidjan are as follows:

000s euros	**2017**	**2016**
Not more than 1 year	1,481	1,401
Later than one year and not later than 5 years	5,577	5,605
Later than 5 years	0	1,374

Note 30: Contingent Assets, Contingent Liabilities, Commitments and Contractual Rights

Contingent assets and contingent liabilities
INTERPOL has no contingent assets and contingent liabilities.

Commitments

Outstanding commitments for signed contracts with suppliers: EUR 3,596,000.

Of the above, EUR 2,502,000 are for 2018 and the remainder not later than 5 years.

Future minimum lease rental payments for non-cancellable leases not included in the above are presented in Note 29.

Contractual rights

As at the reporting date INTERPOL has the following contractual rights:

Contractual rights at 31 December 2017	*000s euros*
Statutory Contributions and RB financing for 2018	57,303
Revenue for the implementation of Trust Fund and Special Accounts	97,659
Voluntary contributions	9,000
Other revenue	101
TOTAL	**164,063**

Of the above, EUR 93,857,000 is to be received in 2018 and EUR 70,206,000 is to be received after 2018.

In 2016, the Organization entered into a five-year agreement with the INTERPOL Foundation for a EUR 50,000,000 donation to support special projects carried out by the Organization. The total amount is to be received annually in equal amounts over five years. EUR 35,000 000 (EUR 7,000,000 per year) is to be received into sub-accounts of the Trust Fund, the “INTERPOL Fund for International Police Cooperation”, and EUR 15,000,000 (EUR 3,000,000 per year) is designated as an unrestricted voluntary contribution with no specific purpose to the Organization’s Regular Budget. The EUR 35,000,000 is covered under accounting policies governing Trust Fund and Special Accounts: overhead recoveries, expert fees and applicable service charges for project activities are recognized on these projects as for other projects within the Trust Fund.

The INTERPOL Foundation was created and registered under Swiss law in October 2013 with the aim of supporting global law enforcement activities. The INTERPOL Foundation has its own board of management, is autonomous and independent of the Organization and is not considered a related party.

Note 31: Key management personnel

Implementation of activities is performed by the Secretary General who directs the General Secretariat and is assisted by a Senior Management Board that reports directly to him. Together, the Secretary General and the Senior Management Board comprise the key management personnel. There were no changes to the composition of the Senior Management Board during the year, with one post remaining vacant.

Key management aggregate remuneration, including gross salary and benefits, paid or accrued by the Organization, was as follows:

Key management personnel			
2017		2016	
Number of individuals	Aggregate remuneration	Number of individuals	Aggregate remuneration
	000s euros		*000s euros*
5	794	5	655

The Secretary General is provided with a serviced apartment in Lyon, France, for which the operating cost is paid by the Organization. The cost associated with it was EUR 145,000 (2016: 8,000) and is included in the above.

During the reporting period the Organization provided total remuneration of EUR 101,000 (2016: 93,000 EUR) to one (2016: one) close family members of key management personnel and included in the above aggregate remuneration only. This consists of remuneration according to the Organization’s salary scales for work provided by the close family member under a separate, contractual work arrangement with the Organization.

Key management personnel include three officers who are seconded from their national administrations (2016: three) and whose expenses may, in part, be paid by the national administration as described in Note 5, *Significant accounting policies, revenue recognition*. The total value of the in-kind benefit that the Organization received from its seconded key management personnel, and not included in the above table, is estimated as EUR 445,000 (2016: EUR 432,000).

There were no loans to key management personnel or their close family members which were not available to other categories of staff. There were no material transactions declared by Senior Management with related parties during years 2017 and 2016.

Note 32: Related-party transactions

The Organization is under the direct control of the member countries. It has no ownership interest in other associations or joint ventures. The Organization's supreme governing body is the General Assembly (GA), composed of representatives from all of the member countries. The GA elects an Executive Committee (EC) composed of thirteen delegates including the President of the Organization.

Neither the delegates to the GA nor the EC members receive any remuneration from the Organization for their roles, nor is the contribution of their time valued as an in-kind contribution. Members of the EC are entitled to reimbursement of travel expenses incurred in the execution of their duties, and are paid per diems for accommodation, in accordance with the Organization's travel policy.